CREDIT UNION PARTICIPATION IN COMMUNITY BASED ECONOMIC DEVELOPMENT

By

MARGARET PATRICIA EBERLE

B.A., Carleton University, 1982

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF ARTS

in

THE FACULTY OF GRADUATE STUDIES
School of Community and Regional Planning

We accept this thesis as conforming
to the required standard

THE UNIVERSITY OF BRITISH COLUMBIA

April 1987

32

Department of Community & Regional Planning

The University of British Columbia
1956 Main Mall
Vancouver, Canada
V6T 1Y3

Date April 28, 1987

ABSTRACT

Local B.C. communities facing hardship in the context of global restructuring and reduced demand for primary resource commodities, have increasingly turned to community based economic development (CBED) to strengthen their local economies. These community based strategies differ from place to place but essentially aim to expand the local economy through socially and culturally desirable development, utilizing local resources, and under some form of local control. However there are numerous obstacles to undertaking CBED, one of which is a lack of financing. Credit unions are community based financial institutions which would appear to be likely participants in a process of community based economic development. They possess significant financial resources, and share with CBED a common philosophy of economic self-help, and an orientation towards the local community.

The potential for credit union participation in community based economic development is the subject of this thesis. A three part methodology was followed with particular reference to major aspects of the issue. First, a review of the local economic development literature pointed to the importance of financing, management advice and local capacity to develop in the CBED process. The experience of CBED organizations in obtaining assistance from chartered banks and federal government programs such as Local Employment Assistance Development (LEAD) demonstrates that there are significant gaps in support. An alternative such as the credit union is needed.

The credit union system was examined to determine if indeed this community based cooperative financial institution holds some promise to assist CBED, and what factors presently act to constrain such participation. There are two fundamental obstacles to credit union participation in CBED. Firstly, there is a lack of will on the part of credit unions to become involved in CBED based on declining member commitment to credit union philosophy. Secondly, credit unions are presently unable to reconcile high levels of risk inherent in lending for CBED with their non-profit structure. Educating credit unions as to the potential benefits arising from CBED may heighten their interest in participating in CBED and there are mechanisms the credit union can employ to reduce risk. Furthermore, credit unions can play some important non-financial roles in support of CBED, which a local orientation and cooperative decision-making framework can enhance.

The empirical portion of the research documented the CBED initiatives of Nanaimo District Credit Union and Vancouver City Savings Credit Union. It demonstrated firstly, that there is interest among individual credit unions within the credit union system to participate in CBED, at least in an incremental way; secondly, that credit unions have tended to follow a marginal business development strategy in support of CBED in their respective communities; and thirdly, there are a number of alternative roles, strategies and institutional arrangements for doing so. Based on this review of the major issues and the experience of two credit unions currently participating in CBED, it appears that credit unions do hold some potential an alternative source of community capital and expertise for community based economic development, but at present appear to lack the philosophical basis for doing so, and furthermore, face some constraints to pursuing a financial role in CBED.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1

INTRODUCTION

The purpose of this thesis is to examine the argument that credit unions should play an expanded role in community based economic development (CBED). Credit unions are community based financial institutions that would seem to represent a likely source of funds for CBED because they possess significant financial resources, share a philosophy of self-help and are grass-roots, local institutions. Past community based economic development efforts have had difficulty obtaining adequate financing for their endeavours either through government programs or private sources. Furthermore, there is some concern within the credit union system and among community based economic development practitioners that credit unions are not fulfilling their responsibilty towards the local community. In fact, several credit unions in B.C. and elsewhere have recently demonstrated their commitment to their respective communities by establishing innovative solutions to community financing requirements.

The remainder of this chapter is directed towards explaining the research questions to which this study is addressed, describing community based economic development, examining the roots of CBED and the context in which it arises, and finally, outlining the research methodology and organization of the thesis.

<u>Research Questions</u>

Three lines of inquiry will be followed in order to determine whether there is a basis for credit union participation in community based economic development.

1) The first question asks whether community based economic development requires an alternate source of financing such as the credit union, and uses two approaches to answer this question. Firstly, three common barriers to community based economic development are identified through a review of the local development literature: a) a lack of financial capital, both debt and equity; b) a lack of information and management advice; and c) an absence of local capacity for development. The latter refers to an ethos of development which provides the necessary will and institutional linkages for integrated development. Secondly, the record of two significant (or potentially significant) sources of CBED support, the chartered banks and a federal CBED program called Local Employment Assistance Development, in reducing these barriers is assessed. With respect to the former, two lines of enquiry are followed: what is the record of the chartered banks in lending to community based economic development groups and what are the implications of regional discrimination on a provincial basis by chartered banks for CBED? The extent to which both chartered banks and goverment programs are able to reduce the informational and capacity barriers to CBED is also examined.

2) The second research question asks whether credit unions are well-suited suited to participate in CBED and to perform

specific roles to reduce the barriers to CBED. The relationship between CBED and credit unions will be examined through a review of the history and nature of credit unions with particular emphasis on philosophy and their local nature. A review of B.C. credit union statistics shows that for the most part they have not played an active role in CBED through new enterprise development, as they are engaged almost exclusively in personal and mortgage lending. What constraints currently operate to inhibit credit union participation in CBED and are these likely to operate in the future? If there are constraints to their involvement, does the credit union's philosophy of self-help and cooperation, their local orientation and their standing as a secure financial institution provide a good basis for a community based economic development approach?

3) The third research question asks if there is empirical support to demonstrate that credit unions are capable of playing a role in CBED. What has been the experience of credit unions pursuing a community based economic development strategy in the province? To answer this question, evidence concerning two current British Columbia credit union initiatives is presented and analysed with particular attention to their goals, strategies, institutional arrangements, and relationships with other community organizations. Furthermore, this section will attempt to determine if they have they been successful in removing any of the obstacles to community based economic development, and in meeting their stated objectives. To further test the merits of credit union participation in CBED, four

criteria for a community development financial institution are developed and applied to the two examples. A brief account of other credit unions in Quebec, the U.S. and Spain provides further empirical evidence of credit union involvement in CBED.

It should be stressed at the outset that little research has been carried out on the potential relationship between credit unions and community based economic development; therefore, this thesis should be viewed as exploratory in nature. Likewise, the disparate nature of the subject area and the fact that numerous fields of enquiry are pursued, means that it is not always possible to do justice to each. With this in mind, numerous suggestions regarding related research are presented in the final chapter.

Defining Community Based Economic Development

Community based economic development (CBED) is an ambiguous term possessing numerous meanings. As such it is necessary to clearly define what is meant by the term as it is used here. Community based economic development refers to an integrated approach to development, one which encompasses social, cultural and economic concerns, and which is pursued by an organization with some measure of local community control. Thus, the goals of CBED are long term economic viability through "locally based socially and culturally desirable economic activity and community control." (Wismer and Pell 1984) A 1985 Social Planning and Research Council study reported that the social values typically found in CBED organizations in B.C. were expressed through permanent job creation, environmentally sound enterprises and democratic work structures. The term socio-economic development is often used to describe CBED; it "suggests that economic actions take place within social priorities, priorities which are concerned with dignity, life choices, and equity." (Clague 1984) The original intent of socio-economic development was that income generating activities would support social aims; however it is not clear whether this goal has been achieved since many CBED organizations rely on government funding. Local self-reliance at the community level is often the intended outcome of CBED while self-sufficiency is the aim of the CBED organization, the latter meaning freedom from government funding for day to day operations. (Highland Resources 1983)

The term community based economic development can be better understood be breaking it down into its component parts. Community may be viewed in two ways; first as a geographically defined area, such as a small town or urban neighbourhood; and secondly, as a community of interest which might cut across several geographical boundaries, but represent people of a common background, profession, sex, or ethnic group.[1] Furthermore, some form of attachment to the community or commonality in social action is usually specified. According to

---

[1]Notable examples of CBED arising from a community of interest are women's projects such as Emma's Jambrosia in the Kootenays, and native development strategies which might encompass both a geographical community and a community of interest, such as the Nicola Valley Indian Band.

Chekki (1979) a geographic community is:

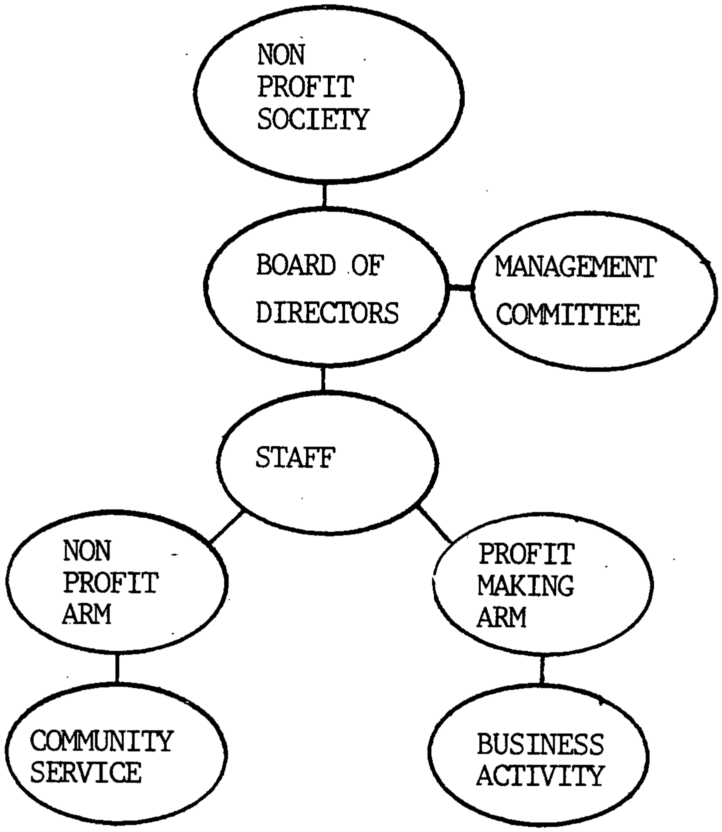
> ... A social system composed of people living in some spatial relationship to one another, who share common facilities and services, develop a common psychological identification with the locality symbol and together frame a communication framework.

In CBED it is generally understood that some form of "common psychological identification" is present at the outset or will be developed in the course of the process. The modifier 'community' is important in the term community based economic development, since community control is an critical component of CBED.

The level of commitment to the community and the degree of local control vary enormously among CBED organizations and enterprises. However, some measure of control is necessary in that the notion of community input is what distinguishes CBED from traditional economic development efforts. The latter aim to increase economic development in a particular area with no concern for the actors involved or the consequences for different segments of the population. An umbrella organization, governed by a board of directors composed of elected or appointed community representatives is the most common form of community control in practise. It is usually a non-profit society with several arms or subsidiaries, some profit-making, which fulfill different functions related to the goals of the community development society. The diagram in Figure 1 illustrates the structure of a typical umbrella organization engaged in CBED which is similar to that of the Community Development Corporation (CDC) employed by

FIGURE 1

TYPICAL CBED UMBRELLA ORGANIZATION



community organizations in the U.S. in the 1960s. The profit-making arm of the CDC may either own, or facilitate the formation of, small businesses, producer or consumer cooperatives, and other activities.

The notion of development is pivotal to an understanding of CBED. (The literature uses the terms 'development' and 'economic development' interchangeably.) In the context of the less developed countries, the term development has evolved over time, but has most commonly been associated with economic growth. According to the neo-classical framework, the appropriate focus for policy is growth in GNP or per capita income. The benefits of growth are expected to "trickle down" from those industries or firms which experience rising incomes to those individuals who exist at subsistence levels. However, the meaning of development has shifted over time to explicitly include socio-economic objectives such as distribution of income, basic human needs, self-reliance and cultural development, recognizing that they do not simply occur as a result of economic growth. Dudley Seers (1969; 1977) traced this evolution of the meaning of development quite succintly. In an early article on the subject, he points out that "economic growth may not merely fail to solve social and political difficulties; certain types of growth can actually cause them." Therefore, development does not occur unless inequality, unemployment and poverty decline with economic growth, that is, redistribution with growth. In 1977, Seers re-formulated the term development to include self-reliance, both economic and cultural, as an essential element.

In Friedmann and Weaver's (1979) words: " a cutting or at least severing of the umbilical cord that tied a country's fate to the world of the transnationals." Moreover, according to Seers, this expanded definition implies a geographical extension of development studies to all countries, especially those suffering from chronic inflation and unemployment. Thus, the economic development literature which focusses primarily on development at a national scale, exhibits a corresponding tendency toward issues of control and self-reliance found in the community economic development literature. For the purposes of this thesis, economic development is defined as a "multi-dimensional process" which involves changing social structures, popular attitudes and institutions as well as economic growth. (Todaro 1985)

Community Based Economic Development Strategies

There are numerous strategies of community based economic development consisting of both formal and informal economic activity such as: new enterprise development, job training and education, barter or exchange networks, housing and land development and others. New enterprise development is often the preferred CBED strategy since it is believed to address the problem of employment generation better than other economic development strategies. In contrast to beggar-thy-neighbour policies which attempt to entice large firms to relocate, a spate of recent research has demonstrated that it is the small firm which is instrumental in job creation. Evidence provided by

Birch (1979) and the Canadian Federation of Independent Business (1982) show that the birth and expansion of small independent businesses have been responsible for a significant proportion of all new jobs. Using data for 5.6 million establishments in the U.S. over a seven year period, Birch (1979) found that new establishments, four years of age or less, created half of new employment. Likewise, the CFIB survey of approximately 8000 small, medium and and large businesses found that firms with under 50 employees accounted for 70 percent of employment growth from 1975-1980 and 100 percent from 1975-1982. Thus, while big business provided roughly 30 percent of new jobs between 1975-1980, these were lost in the recession of 1980-1982. Clearly there is a significant trend to small business sector employment growth; however, evidence is mixed as to the importance of the service sector in this growth and consequently the nature and quality of jobs created. (Birch 1979; CFIB 1982) Notwithstanding the above qualification, new enterprise development is the preferred strategy of most CBED organizations and is the focus of this thesis.

CBED enterprises typically share a number of common characteristics. An informal list culled from the popular CBED literature characterizes CBED enterprises as:

- small scale
- suitable for the skills and interests of local residents.
- use local resources

- involve the local community
- use labour intensive and environmentally sensitive techniques
- aim to replace goods and services currently imported or increase local value added of export goods. (Calder Action Committee 1979; SPARC 1985; Wismer and Pell 1982)

The latter characteristic of CBED enterprises describes the two ways in which a community or community enterprise may influence the local economy. One seeks to stem the outflow of cash from a community; the other aims to increase the flow of money into the community. This distinction represents a useful way to describe and understand the dynamics of a community economy as outlined by Davis (1986). The multiplier is a measure of the extent to which a community is able to respend an increase in local income. A large multiplier represents a stronger local economy.

Money is "leaked" from the community in four ways. First, through government taxes, which may or may not be channelled back into the community in the form of government services or transfer payments. Leakages also occur by way of local payments for goods imported from other regions or from outside the country. Thirdly, the savings of local residents invested in term deposits, stocks, pension funds or government bonds may be withdrawn from the local economy. Removal of profits and dividends generated by firms operating within the local economy but with headquarters outside the community are another form of leakage. While the community can do little (legally) to stem the outflow of taxes, imports and savings are subject to community action such as import substitution schemes or strategies to encourage residents to put their savings in a local financial institution where funds are recycled for another local borrower. Community action can reduce the outflow of profits and dividends through worker or possibly community purchase of externally owned firms.

Money flows into the local economy through the sale of exports, investment and senior government spending. Expanded export production, either through resource extraction or value added processing of raw materials, is the most likely method a community can employ to increase the flow of money into the local economy. The former technique is especially useful for small, resource based economies. Attempts to diversify a local economy away from dependence on a single resource is probably more suitable for a larger regional economy. Investment, either through the expansion of an existing firm, or the introduction of a new business or plant in the region, generates increased cash flow. Different impacts on the local economy will occur, however, depending on where the investment originated. Locally based expenditures are likely to have greater linkage effects than branch plant investments for example. Government spending also increases the flow of money in the local economy, but with the exception of transfer payments for unemployment insurance and the like, community efforts are restricted to lobbying the appropriate agency for increased government expenditures in the area.

In summary, the techniques which hold the most promise for community based economic development are import substitution, mobilization of local savings, increased export production, and local investment. The role of the credit union in reducing leakages from the local economy and expanding capital flows into the community will be discussed at length in Chapter 4.

The Impetus for Community Based Economic Development

The impetus for CBED can be traced to a number of different factors, but the three primary ones are: de-industrialization and the corresponding rise in unemployment; the inadequacies of current regional development policies; and the concern for community empowerment expressed in community development.

De-industrialization

Mounting interest in community based economic development occurs against a background of economic restructuring on a global scale. The prosperity of the post-war period was interrupted in the early 1970s with the oil crisis, which had disastrous consequences for the industrialized world. This shock also illustrated vividly the interdependence of national economies. Other vast changes in the global economy have meant that for over a decade, the leading industrialized countries have been plagued with high rates of unemployment due to plant closures and labour substituting capitalization programs. This problem is addressed in The De-industrialization of America.

(Bluestone and Harrison 1982) Often the main protagonist in this drama is viewed as the multi-national or trans-national corporation so vividly described in the following text:

> Enormous multinational corporations appeared on the horizon and began the herculean task of global market integration. Capital was freed from its traditional location and able to bring even nation states to their knees by the simple device of threatening to move to some other, more benign business climate. (Friedmann and Forest 1984)

This economic restructuring has resulted in a trend toward high unemployment rates across Canada, but some regions have experienced higher unemployment rates than others, especially the traditional have-not regions on the periphery. This remains the case today, as unemployment rates range from a high of 14.0 percent in Newfoundland to 6.8 percent in Ontario. (November, 1986) A resource based economy like British Columbia suffers particularly at such times. This is reflected in an unemployment rate of 13.4 percent in November 1986, compared to 9.4 percent for Canada as a whole. (Statistics Canada, Catalogue 71-001, December 1986) Table 1 provides detailed information on unemployment rates by province for the last ten years.

Statistics describing B.C.'s forest industry are indicative of the employment implications of the current economic situation. In 1985 log production in the province finally reached the pre-recession levels of 1979. However, this growth in output was achieved with a corresponding 26 percent decline in industry employment from 1979. (B.C. Central Credit Union 1986) The extent of the unemployment problem, especially in resource towns and rural areas, is often a motivating factor in

TABLE 1

UNEMPLOYMENT RATES BY PROVINCE

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Newfoundland	13.3	15.5	16.2	15.1	13.3	13.9	16.8	18.8	20.5	21.3
Prince Edward Is.	9.6	9.8	9.8	11.2	10.6	11.2	12.9	12.2	12.8	13.2
Nova Scotia	9.5	10.6	10.5	10.1	9.7	10.2	13.2	13.2	13.1	13.8
New Brunswick	11.0	13.2	12.5	11.1	11.0	11.5	14.0	14.8	14.9	15.2
Quebec	8.7	10.3	10.9	9.6	9.8	10.3	13.8	13.9	12.8	11.8
Ontario	6.2	7.0	7.2	6.5	6.8	6.6	9.8	10.4	9.1	8.0
Manitoba	4.7	5.9	6.5	5.3	5.5	5.9	8.5	9.4	8.3	8.1
Saskatchewan	3.9	4.5	4.9	4.2	4.4	4.7	6.2	7.4	8.0	8.1
Alberta	4.0	4.5	4.7	3.9	3.7	3.8	7.7	10.8	11.2	10.1
British Columbia	8.6	8.5	8.3	7.6	6.8	6.7	12.1	13.8	14.7	14.2
Canada	7.1	8.1	8.3	7.4	7.5	7.5	11.0	11.9	11.3	10.5

Source: Statistics Canada, Catalogue 71-001, The Labour Force, December, 1985; Catalogue 71-529, Labour Force Annual Averages 1975-1983, 1984 community based economic development efforts, and not just a secondary consequence. In addition to the problem of general unemployment, marginal groups like the young, women, and native people have special unemployment problems which require particular attention even at the best of times.

A sense of powerlessness is evident in a community when its economic health is seen to depend on outside forces. This is especially likely to occur in single industry towns. Native development initiatives stand out as a good example of people trying to take control of their lives after being severely dependent on government transfer payments for many years. However, non-native groups can exhibit similar dependency relationships with large foreign owned resource companies for example, and consequently look to CBED as a means of reducing this dependency.

Regional Development Policy

Community based economic development is also a response to the failures of conventional, top-down, social and economic development strategies of various levels of government. Although some federal employment programs are specifically directed towards CBED, most regional development spending has occurred on industrial development strategies. It is interesting to note that CBED programs are instituted through the employment ministry rather than one traditionally responsible for economic development policy. This reflects the recognition that CBED seeks to create long lasting employment through socio-economic development rather than economic or industrial development.

In 1969, the federal government implemented a coordinated strategy for reducing regional economic disparities with the formation of the Department of Regional Economic Expansion (DREE). Since that time, numerous programs have been implemented, the results of which have been less than spectacular. Policies were designed to subsidize declining staple industries such as agriculture and forestry, to reinforce labour market operation through mobility subsidies, to encourage private investment with social and economic overhead capital and industrial incentives; and to build mega-projects such as the Northeast Coal Project. These were the major tools used by the department to promote industrial development in the peripheral regions. (Weaver and Gunton 1986) Despite these efforts, the Economic Council of Canada, in its 1977 study of regional disparities, concluded that "disparities in Canada are surprisingly large; certainly larger than many of us expected and larger than they need to be or ought to be." More specifically, between 32 and 61 percent of DREE'S location subsidies to industries in depressed regions were found to have no effect on a firm's location decision; the move would have been made anyway. Thus partly in response to the perceived failure of previous regional development programs, and the fiscal belt tightening in the 1980s, many of the regional initiatives of the 1960s and 1970s have been abandoned. (Weaver and Gunton 1986) People living in communities in depressed regions have likely recognized the failure of policies of this nature to substantially alter their circumstances and have subsequently turned to local initiatives like CBED.

Community Development

Community development can be viewed as a direct forerunner to community based economic development, and it remains a fundamental aspect of CBED. It is a strategy of developing group problem solving skills and ultimately of political empowerment. Community development is :

> a social process by which human beings can become more competent to live with and gain some control over local aspects of a frustrating and changing world." (Biddle and Biddle 1965)

Moreover, community development rests on certain fundamental propositions regarding human values:

> ...that people are capable of both perceiving and judging the condition of their lives; that they have the will and capacity to plan together in accordance with these judgements to change that condition for the better; that they can act together in accordance with these plans; and that such a process can be seen in terms of certain values. (Roberts 1979)

The study group approach to credit union formation advocated by the Antigonish movement corresponds to the process of community development outlined above. According to Coady's (1939) view of adult education, credit union members would learn the value of cooperation through the organization and operation of a credit union. They could take part in study groups, and sit on committees and boards concerned with day to day management. The social learning aspect of community development is emphasized in the following statement:

> ...for the purposes of community development, a

> community has to be seen as a collection of people who have become aware of some problem or some broads goal, who have gone through a process of learning about themselves and about their environment and have formulated a group objective. (Roberts 1979)

In recent years, with increasing credit union size and the professionalization of management, there are fewer opportunities for members to participate in its affairs. (Thompson 1978) The study group technique has proven less successful today in Canada than in the 1930s and 1940s and in fact the Antigonish movement has turned a large part of its attention to less developed countries.

Community development principles and techniques were first applied by British colonial offices in Africa and Asia in the 1930s. Their approach was largely project oriented focussing on skills development, production of goods and services, and increased technical know-how. (Campfens 1983) While initiated outside the community, this technique was dependent on local adaptation and participation.

North American efforts in the 1960s took a broader view of community development. It was meant to empower disadvantaged members of the community, particularly residents of black urban neighbourhoods. Early American anti-poverty programs encompassed job training and youth recreational activities, essentially stressing the problems of individuals. Perry (1984) describes these strategies as irrelevant at best. Limitations of the traditional community development model can be traced to:

> ...its pyschological rather than socio-economic approach to social problems...it will improve the psychological lives of the poor but it will not usually question the economic system which permits the

coexistence of poverty and plenty. (Khinduka 1984) Disenchantment with these programs led to a realization that successful community development would have to encompass both the social and economic aspects of development from within the community. So, if the "central credo" of community development is to develop the competence of a community so that it may confront its own problems, it was felt that the approach could be expanded to include both a social and economic perspective.

The first experience with the combined social and economic approach to community development is usually viewed as the experiments with "black capitalism" in the U.S. in the 1960s. According to Perry (1984) and others, blacks "shifted their concept of the black community from black civil rights to the social-economic concept of the black community." This was based on the belief that blacks could achieve parity with whites through capitalism so that "both parties bargain as equals." (Faux, quoted in Berndt, 1977) In 1972, after several years of experimental programs a community economic development program was created called Title VIII of the Economic Opportunity Act. It was held that "through the development of community institutions, the ownership and renovation of community physical assets and the acquisition and development of community business, the quality of life and chances of the individual would improve." (Berndt 1977)

The program has since been terminated and community development corporations (CDCs) in the U.S. must now rely on private funds. What has been the effect of CDCs on the poor communities they were intended to help? Evidence is far from complete due in part to the difficulty in assessing endeavours with multiple objectives. Some hold that while not a foolproof cure for alleviating urban poverty (Cummings and Glaser 1983) CDCs have nevertheless created tangible benefits, particularly in job training and employment creation. (Stein 1973) A more critical assessment asserts that these CDCs have failed to help the poor and instead have benefitted middle-class government administrators. (Berndt 1977)

Methodology and Organization

Each of the remaining chapters addresses one of the three research questions posed at the outset of this chapter. Chapter 2 presents a review of the 'local development' literature which is emerging within the regional development literature. Both the sources and barriers to community based economic development are identified. The latter are used in later chapters to propose essential roles for the credit union in pursuing a strategy of CBED.

In Chapter 3 the extent to which two primary sources of financial support for CBED, chartered banks and federal long-term employment programs, are able to overcome the previously identified barriers, is assessed. The question of small business financing and regional discrimination is examined in the case of the chartered banks to determine their significance for CBED. The experience of the recent federal Local Employment Assistance Development (LEAD) program in meeting the requirements of CBED is also examined.

Two approaches are used to establish a common link between the credit unions and community based economic development. The first, in Chapter 4, develops a rationale for credit union participation in CBED through a consideration of credit union history and philosophy, and their present operation and organization. An elaboration of several constraints to credit union participation in CBED is then derived to explain an apparent lack of interest on the part of many credit unions with respect to CBED.

Chapter 5 follows a second approach and presents and empirical study of two CBED initiatives by Nanaimo District Savings Credit Union and Vancouver City Savings Credit Union. Both operate small programs in support of CBED which are assessed with a view to determining the type of strategy employed, how well they have met their own objectives, and their performance with respect to four proposed criteria for evaluating a community development financial institution's performance in CBED. Three other examples of credit union initiatives are briefly described in Appendix A: the caisses d'entraide economique in Quebec; community development credit unions in the U.S.; and the Caja Laboral Populaire in Spain. They are intended to give the reader a sense of the scope of local development activities undertaken by various credit unions in other places. The various institutional arrangements used by the credit unions in support of CBED are then summarized and displayed in a framework or typology. Data for this chapter are drawn from interviews with credit union staff and board members, listed in Appendix B, and published material such as annual reports and newsletters.

Chapter 6 contains a summary of the preceeding chapters, general conclusions arising from the research, suggested avenues for further research and some proposals concerning an expanded role for credit unions in community based economic development.

CHAPTER 2

LITERATURE REVIEW

Introduction

Community based economic development is a fairly recent phenomenon, whose special characteristics have not yet been synthesized into a coherent theory or framework. The literature consists mostly of popular accounts of specific CBED projects and some generalizations arising from these. In seeking to discern a rationale for credit union participation in CBED, and in order to identify their possible roles, it is first necessary to understand the sources and barriers to CBED. The treatment of these two themes in the local economic development literature and their implications for credit union participation is the aim of this chapter.

In looking at the sources of local economic development it is particularly important to determine those factors which make it a local phenomenon. The predominant explanations in the literature focus on human resources and local ownership. Proceeding from the identification of the sources of local economic development, it is apparent there are several distinct barriers to community based economic development. The three most important ones for an enterprise development strategy are: 1) a lack of information, 2) difficulty accessing financial capital, and 3) appropriate institutional mechanisms for community development.

Use of the local economic development literature to explicate the sources and barriers to CBED is based on two premises. Firstly, as mentioned above, community based economic development lacks a formal theoretical perspective which can explain the sources and barriers to CBED. In its absence, it is postulated that the growing literature on local development and territorial development, which has arisen within the broader framework of regional development theory, may offer some insights. Secondly, community based economic development shares with regional development a concern for socio-economic development in a spatial context. Before proceeding with an examination of these themes, it is necessary to sort out some definitional ambiguities. This is followed by a critique of neoclassical, growth pole, and staples led theories of regional development from a local development perspective.

Definitions

There is a lack of consensus regarding the definition of what I will generically call local economic development. Two distinct schools of thought prevail in the regional development literature. The principal difference between the two concerns the distribution of power in economic and social relationships, essentially a political issue. The first, called local development, approaches the whole notion of development from a Keynesian perspective. It postulates that the mixed market, while imperfectly functioning, forms an adequate starting point from which to approach problems of regional imbalance.

Accordingly, only a few adjustments need be made from a local perspective in order to redress some of the inevitable regional imbalances within the nation. This concept of local development is more that just a spatial reduction of regional development; rather it is a process in which the impetus for development is found principally within the locality in question, as opposed to being provided from external sources. According to Coffey and Polese (1984), its chief proponents, "this view of 'local' within the development process necessitates the elaboration of a model which specifies the role of endogenous elements and which can be applied to larger regions as well as to micro-regions." By this definition development is explained as a largely economic phenomenon, meaning "sustained and irreversible economic growth" with some oblique reference to structural and even social change.

> When we speak of such objectives as the emergence of entrepreneurship, the stimulation of indigenous talents, or the awakening of regional solidarity, we are basically speaking of social changes the origins of which we do not understand. (Coffey and Polese 1985)

Thus Coffey and Polese hold the view that social and cultural factors account for, or explain economic development rather than serve as the objectives of development.

By comparison, territorial development provides an expanded definition of local economic development in which the political economy perspective plays a central role. Authors using the territorial rubric such as Friedmann and Weaver (1979) tend to go beyond the local development theorists described above and have "based their approach upon the need for fundamental changes in the nature of the existing space economy." (Coffey and Polese 1985) Unequal relationships between regions are viewed as the problem which integrated development at the local level seeks to address. Territorial development is used to mean economic self-sufficiency, cultural independence and political autonomy, and as Friedmann and Forest (1984) point out, concern with the politics of place.

The territorial perspective has recently re-emerged in the literature after losing importance to more functional doctrines of regional development in the 1950s and 1960s. It is most commonly applied to third world development, where the basic conditions for development are postulated as: selective territorial closure, communalization of productive wealth, and equalization of access to the bases for the accumulation of social power. (Friedmann and Weaver 1979) A western application of this territorial framework labelled bioregionalism focuses on the biophysical region as the subject of development, ownership of natural resources at the local level, and an ecological perspective on development. The goal of bioregionalism, "to live in place" requires that residents are "aware of the precepts of ecology, economics, physical science and politics." (Aberley 1985)

Therefore, two distinct perspectives of local economic development are discernible within the literature, which differ on the basis of the role of politics, and the role of social and cultural variables in regional development. The local development authors hesitate to call for community control of productive resources in a mixed market economy yet recognize the importance of local ownership. In contrast, territorial development explicitly addresses the question of political control at the local level.

Local Economic Development as Community Based Economic Development

Based on the foregoing definitions then, how well does the local economic development literature approximate what we understand to be community based economic development? Both are concerned with development at a local level, using local resources, initiated, and to some extent, controlled locally. The best way of understanding CBED is as a hybrid of the two definitions described above. Community based economic development is similar to the local development definition in its attitude toward local ownership as consistent with existing patterns of social relations. It shares with territorial development a similar range of attitudes towards social and cultural factors as objects of development as well as sources of development, but in more than an entrepreneurial sense. Consequently, both local economic development definitions share some features with CBED and are useful in identifying the sources and barriers to endogenous development. Furthermore, both question the adequacy of existing theories of regional development, which is the subject of the next section.

Critiques of Traditional Regional Development Theory

The inadequacy of neoclassical, growth pole and staples theories of regional development is acknowledged by many regional planners; criticism is not limited to those advocating local economic development. (Weaver and Gunton 1982; Economic Council of Canada 1977) To the extent that traditional concepts have been applied in regional development policy the outcomes have not been encouraging. Proponents of local economic development usually preface their work with a brief critique of regional development theory from a local development perspective (Coffey and Polese 1984; Friedmann and Forest 1984; Savoie 1986) because:

> Clearly there seems to be a need for rethinking the regional question and all it entails, from the theories of regional science to the role of politics in development. (Weaver 1984)

The critiques of neoclassical, growth pole and staples theory are summarized here.

Neoclassical Theory

The neoclassical approach to regional development is rejected by the local development theorists because the assumption of labour mobility is problematic and it ignores political considerations. Neoclassical theory argues that capital and labour will flow to areas where the best marginal returns are to be found and that eventually, this will lead to inter-regional equalization and equilibrium. Savoie (1986) asserts however, that outmigration will not solve the regional adjustment problem because labour will not necessarily possess the skills required to work in another region. Furthermore, it is often young and educated people who migrate, and in todays service sector dominated economy, "regional productive capacity is embodied in people." (Coffey and Polese 1985) Provincial boundaries and cultural differentiation mean place is very important. Savoie (1986) asserts that the prospect of a provincial politician advocating out-migration to residents of a disadvantaged region is politically unacceptable. In Friedmann and Forest's (1984) formulation (albeit a more radical one) outmigration is not seen as the solution, in fact a politically mobilized population is viewed as the main protagonist in territorial development.

Growth Pole Theory

Growth pole theory is a second major theoretical framework for analyzing regional economic development which, aside from problems of interpretation and implementation, has also been the subject of criticism by the local economic development theorists. It is predicated on the notion of unbalanced growth and the possibility that the growth characteristics of leading regions can be strengthened, eventually resulting in benefits for the hinterland (Cameron 1970), or simulated in peripheral areas with propulsive industries. (Myrdal 1957) Growth pole policies are concerned with spatial concentration of resources so as to realize economies of agglomeration, infrastructure and maximize linkages. Policies to locate propulsive industries in designated growth centres through infrastructure subsidies, tax breaks and the like, seek to strengthen or mimic growth inducing characteristics of growth poles.

Coffey and Polese (1985) are concerned that the two competing goals of this approach, spatial equity and efficiency are incompatible and indeed conflict. Also of concern from a local development perspective is the fact that the growth pole concept does not give sufficient consideration to the location of linked investment. They point out that:

> The extent and nature of interfirm linkages, in the form of sub-contracts and intra-firm flows, are greatly influenced by the location and behaviour of head offices of multi-branch corporations. Investments originating outside of the region often generate a much lower level of linkage effects.

Since the growth pole concept relies on intra-region multiplier and inter-industry linkage effects, this is an important criticism.

Staples Theory

Staples theory is the third major framework for analysing regional development. Based on Innes' (1956) analysis of Canadian economic history it holds that successive exports of staple resources from hinterland regions have characterized Canadian development. The exploitation of staple products in which a region has comparative advantage leads to an inflow of labour and capital. If growth is to be sustained after staple exports decline it is important that the necessary backward, forward and final demand linkages have developed to lead to diversification of the region's economic base. If the necessary linkages do not develop, then the region is said to be in a 'staples trap'. Staples theory does correspond with local economic development as it incorporates social, cultural and political factors in its account of economic history. In Weaver and Gunton's (1982) view:

> Canadian development theory, in the hands of Innes, emphasized factors such as discrepencies in power between metropolis and hinterland, the consequences of external control, the problem of leakages of capital, institutional blockages to economic diversification, and the frequent occurrence of disequilibrium and crisis...

One of the policy implications of staples theory is to reduce external ownership of staples industries in order to reduce capital leakages from the region.

Local development theorists would disagree with the assumption implied by staples theory that the source of economic development depends primarily upon the availability and marketability of a region's natural resources. It is a partial explanation, but according to Coffey and Polese and others, comparative advantage can also be based on indigenous enterprise, entrepreneurial ability and so on. In fact, as we move to an examination of the predominant sources of community based economic development, one of which is human resources, the basis for the last assertion will become clearer.

Sources of Community Based Economic Development

Theories of local development differ from the three preceding theories of regional development in the emphasis placed on two factors; human resources and local ownership as sources of community based economic development. While they are not the only factors responsible for local economic development, they are what distinguishes it from other regional development theories. As we shall see, each has particular implications for understanding the barriers to economic development.

Human Resources

Human resources, meaning the skills, know-how, entrepreneurial spirit and initiative of the local population, are critical to an understanding of community based economic development. According to Coffey and Polese (1985) "the stock of entrepreneurship and accumulated knowledge embodied in its population" are at least as important to development as the more classical factors of labour and capital. Classical models explaining economic growth leave a large residual factor which may be attributed to this type of cultural or sociological element. The local development theorists cite the development of places like Taiwan, where limited physical resources did not inhibit development, in support of their argument. However, this type of comparison which includes both high wage and low wage countries is not the best form of evidence. Friedmann and Weaver and other territorialists go beyond considerations of entrepreneurial spirit and technical ability to stress cultural and anthropological factors. According to Boothroyd and Anderson's (1984) reading of the territorialist view, native Indian culture would be seen as a source of strength upon which to base an integrated development strategy.

Acting to reinforce the contention that human resources are a significant factor in development is the increasing share of Western economies classified in the service sector. Compared to the semi-skilled labour required for blue-collar occupations in the manufacturing sector, the knowledge based industries of the service sector require a sufficiently trained workforce:

> It will be necessary to treat these investments [in human capital] as comparable to the purchase of machinery if we are to provide the skills necessary for continued growth within the service industries. (Vaughan 1980)

Furthermore, investment in human capital or education is viewed as generally supportive of both the economic and social aims of development. From this perspective, policies which attempt to counter the "brain drain" effects of out-migration, increase skill levels, stimulate local entrepreneurship and cultural independence would appear to be the instruments of community based economic development. However, incorporating investments in 'soft' objectives such as human resources have not been dominant in regional development work and consequently are "the basis of many of the challenges facing a local development approach." (Coffey and Polese 1985)

Local Control

A range of terminology is used in the literature to describe what varies from local private ownership of small businesses, to community owned businesses, to community development corporations, to worker cooperatives, to self reliance, to selective territorial closure. Frequently however, local control is taken to mean small business development, which is locally owned, and initiated or supported by a community controlled development organization like a CDC. The concern for local "control" as a source of development has three dimensions: decentralization, participation in economic planning and decision-making, and the linkages associated with locally controlled industry.

The centralization-decentralization debate is a recurring theme in regional development planning. It arises in policy formulation and implementation in the Canadian federal system because "any agency dealing with problems designed in a spatial context will invariably clash with an organizational system in which most other departments are concerned with sectoral issues..." (Lithwick 1986) Sectoral issues are most commonly dealt with on a centralized basis. In regional development theory, the predomimant paradigm has been a functional one, focussing on particular industries or sectors of the regional economy. Earlier more decentralized "territorialist" development strategies like the TVA were replaced by functional regional planning doctrines in the 1950s. Subsequent regional development efforts have tended to adopt this notion of functional planning.

Community based economic development corresponds to a theory of development where decisions concerning the local economy are made at the local level wherever possible; decentralizaton in the context of CBED means development from below or grass-roots development. The role assigned to government in CBED is limited, in fact Friedmann and Forest (1984) reject central resource allocation by the state in their conception of territorial development.

> Even economists and public policy specialists who have long favoured government intervention for promoting regional economic development are rejecting centrally planned and implemented programs.

The role of government in a decentralized CBED strategy is one of funding local groups to pursue their own initiatives within a broader economic development policy framework.

Decentralization may or may not require absolute political control over regional resources, cultural and economic space. At a minimum, it implies some level of participation by the local community in economic, social and cultural affairs. This is not just to avoid corporatist tendencies in public sector intervention, but also to build a political base or popular support for new developmental initiatives. It can be related to the rise of public participation in urban planning which arose in the 1960s and 1970s. The most common approach utilized by community based economic development efforts is local ownership of small business, frequently aided by some form of community based organization called a community development corporation (CDC). The latter represents the community through a board of directors and commonly has a mandate to plan for or initiate local economic development or to act "as catalysts for local projects and initiatives." (Coffey and Polese 1985)

The question of ownership and control has significant effects on the nature and extent of interfirm linkages. Backward linkages, which refer to inputs into the production process, and forward linkages, which arise from the processing of local resources, provide another argument for local development, since they are more likely to occur with locally, rather than externally controlled firms. (Gunton 1982) A recent study by Polese (1982) shows that intrafirm service transactions are largely polarized by head offices, making those regions lacking control functions net importers of business services. Furthermore, the local development theorists would agree with staples theorists who believe that external ownership decreases the likelihood that profits and rents will be reinvested in the region and dampens the development of indigenous entrepreneurial talent.

Obstacles to Community Based Economic Development

What are the obstacles to community based economic development implied by the central role of human resources and local control? Given the emphasis placed on the promotion of local entrepreneurship as a strategy of CBED in much of the literature, it is appropriate to focus on the barriers to local entrepreneurship as they apply to the credit union. These are considered under the headings: information and management advice, financing, and local capacity. Other handicaps face the small business firm such as those arising from technical, institutional and other economies of scale. This is an important issue with respect to community based economic development, but it is beyond the scope of this thesis.

Information and Management Advice

Residents of rural and remote communities often do not have the same easy access to information as do their counterparts in urban areas. Costs of obtaining information, both in terms of time and money are significantly higher and thus act as potential barriers to local economic development.

> Quite simply, inhabitants of a lagging region rarely possess the necessary information on how the 'system' works, on how to get assistance from existing programs and policies. The civil servants and bankers are far away in the large cities and moreover, do not speak the same 'language'. (Coffey and Polese 1985)

This is where the community development organization referred to in the previous section fits in. It can act as an information broker to provide technical and financial information as well as advice on good management practises. Information is frequently required for the local entrepreneur to access available sources of financing such that the two are often inseparable.

Financing

The local development literature identifies capital as a necessary element for the development process. The most severe shortage of capital is long-term equity or venture captital, but debt financing is also a problem. In the case of debt capital, it is <u>access</u> to financial capital which is problematic for the small firm, rather than the <u>cost</u> of borrowing. This stems from the fact that capital is generally only a small part of the cost of doing business, less than ten percent for most small firms. (Daniels 1979) These small firms face special barriers in gaining access to financial capital, both debt and equity, primarily because their requirements are relatively small. According to Daniels and Kieschnick (1978) it is "a difficulty that appears remarkably unjustified by differences in the rate of return and risk." These barriers are attributed to capital market imperfections and a concentration of assets in a small number of large financial institutions which are very powerful in debt and equity markets. Consequently, most small ventures are financed with personal savings, loans from friends and relatives, and short term commercial debt.

> Thus we have major national problems in developing new industry, new products and small industry in any location let alone in those communities of greatest concern to us... The problems in raising capital for profitable minority businesses and commercial enterprises especially in declining neighbourhoods, are even more extreme. (Daniels 1979)

Local Capacity

Recognizing that an abundance of information and financial capital is not necessarily a sufficient stimulus to community based economic development, the local development literature turns to the less tangible, but equally important role of local capacity. Capacity refers to the aspirations, skills, networks and systems which individuals and groups use to make changes in their environment. "Capacity is a quintessential development concept, demanding a long-run perspective." (Bearse 1982) If human resources are to be accorded a central role in community based economic development as the literature suggests, then the building of local capacity is a necessary corollary to development.

The chief shortcoming of the local economic development literature is its failure to explain this process and correspondingly, to suggest a possible strategy to deal with it. In some cases, the role of capacity building is limited to that of creating potential entreprenuers (Coffey and Polese 1985); but community developers refer to the more general notion of building group capacity and a sense of power over economic and social resources. (Roberts 1979) The best guide to local capacity building is probably the community development literature referred to in Chapter 1. To the extent that the local economic development literature does recognize a broader scope for capacity building it does not address the the sociological and political implications. This is a common failing of regional development theories in general; economic determinism usually prevails. Coffey and Polese (1984) lament this limitation of regional science and suggest that their model of local development will "furnish an opportunity to more fully open" regional science to other disciplines.

Summary and Implications for CBED

An examination of the local economic development literature yields some important insights into the process of CBED and its distinguishing features. First of all it is often described as a business development strategy occurring at the local level, using local resources, with some element of local control. Clearly CBED differs from other regional development theories due to an emphasis on human resources and local control as sources of development. Consequently, policies to stimulate CBED should focus on the development of human resources and local control. These special characteristics of CBED imply a set of three related barriers to CBED: 1) lack of knowledge, 2) limited access to financing and 3) lack of local capacity to develop. In contrast to economic development policies which support infrastructure investment, location subsidies and the like, CBED requires that informational, financial and capacity barriers be removed. The credit union would seem to be ideally suited to handle the financial requirements of CBED and to some extent the provision of information and management advice, and some capacity building. The geographically based credit union operates under the control of its members who are residents of the common bond. However, before turning to the credit union's role in all of this, the record of the chartered banks and federal LEAD program in performing these functions is examined in the next chapter.

CHAPTER 3

PROBLEMS FACING CBED ORGANIZATIONS

The preceding chapter made three of the potential barriers facing CBED explicit: information, financing and local capacity. The purpose of this chapter is to document the extent to which these barriers exist, and whether chartered banks and federal government employment programs are able to contribute to reducing these obstacles. This will demonstrate the need for an alternative institution such as the credit union to play both a financial and a developmental role in the community. Community based economic development organizations and enterprises report numerous difficulties in initiating and maintaining a process of community based economic development. Strandberg (1984) places them into two categories consisting of financial support and management support. Financial support may take the form of equity or debt financing. The second category includes technical, managerial and organizational functions, and training. A third category of barriers to an effective community development process are those involving a lack of local capacity or "a sense of power or control over economic events." (Jackson 1984)

The Experience of CBED Organizations

Existing community based economic development organizations have frequently stated their problems with respect to financing. For example, a 1983 study of CBED organizations revealed that the majority felt funding uncertainty was a major problem in their continued operation. (Highland Resources 1983) In fact, it is possible that a lack of adequate financing is the primary external obstacle to community economic self-help. (Jackson 1984) Since self-reliance is a goal of the CBED process, obtaining access to capital is critical. CBED organizations hold the unenviable position of being ineligible for traditional sources of small business financing such as banks because of the integration of social, cultural and often environmental objectives; yet similarly are ineligible for grants and subsidies to social service agencies and charitable organizations. Many CBED organizations are profit-making but not-for-profit, meaning that any surplus is invested to meet the needs of the organization's objectives, not distributed among the members.

This dilemma positions CBED organizations outside of the traditional public sector - private sector dichotomy; instead they are better classified within the third sector, incorporating some of the strategies of each in one hybrid organization. The difficulties are compounded for cooperatives which rely on borrowing and government assistance to complement membership fees and membership capital. Often however, members cannot find the equity required for their share of membership capital and seek to borrow this as well. The financial difficulties of a CBED organization arise for two reasons; 1) the profit-making activities are not sufficiently profitable to support the non-profit making activities and 2) the non-profit activities are inable to generate sufficient funding from external sources such as government or private foundations to meet their requirements.

Community based economic development groups often suffer from a lack of both information and management skills to carry out their development work. CBED staff and board members require some knowledge of business, preferably community business, to assist them in day to day activities. However, in the first instance, since many CBED organizations are instigated by social workers and community service organizations, outside managerial staff with a business background are hired. This is less than satisfactory since they often have little knowledge of, or commitment to the CBED approach. If the cooperative form is used, specialized assistance pertaining to management styles and organizational forms is required. Fortunately various cooperative development agencies offer some support for fledgling cooperatives such as the Cooperative College of Canada, which has offices in several regions across Canada including B.C. and the Coady Institute in Nova Scotia.

It is more difficult to explain the problems associated with a lack of local capacity to undertake a community based economic development effort; however in many cases, development is frustrated by a situation where a community has been dependent on outside corporations or government to provide for its welfare. This chapter begins by examining the record of private banks and a federal government program designed to assist CBED called Local Employment Assistance Development or

LEAD in overcoming the above mentioned obstacles. It concludes that CBED organizations do indeed require alternative sources of financial, informational and capacity building support.

Chartered Bank Lending to CBED Organizations

The CBED popular literature often cites the inaccessibility of bank financing for small businesses, whether of the traditional type or CBED initiatives, and bank discrimination against remote, economically disadvantaged regions in the West, as a major barrier to economic development. (Ross no date; Wismer and Pell 1982) The nature of these allegations will be examined focussing on two major issues. Firstly, what is the extent and nature of chartered bank financing of CBED and what, if any, are the problems? Secondly, since CBED often takes place in economically depressed regions, what are the regional implications of bank financing and what does this mean for CBED?

Only a small percentage of CBED organizations and enterprises receive financing from chartered banks at this time and very little has been written concerning their experience with the banks. Even fewer cite credit unions as a source of funds. (Highland Resources 1983) Table 2 shows the source of financing used by 53 CBED organizations surveyed on the matter in 1982, revealing a heavy reliance on government funding. The respondants were not asked however, to indicate the amount or proportion of total financing received from each source, and it is likely that numerous sources were used.

TABLE 2

Sources of CBED Financing

Source	Number
Banks Loans	13
Credit Union Loans	5
Federal Government	42
Provincial Government	34
Municipal Government	13
Fee for Service	18
Revenue from Business	19
Church, Foundation Gift	6
Personal Gift	10
Corporate	6
Sale of Stock	2
Membership Fees	17
Rents	13
Others	12

Source: Highland Resources. Community Based Development in Canada 1983.

Does the present lack of support by banks suggest that they are an inappropriate source of financing for CBED or is there some potential? The previous discussion regarding the multiple objectives of CBED organisations and the distinction between profit and non-profit making activities suggests there may be a role for banks in financing small businesses which represent the profit making arm of community development corporations. Since CBED enterprises often take the form of a small business, the experience of the traditional small business in gaining access to bank financing is relevant.[1]

The distinction between small business development and

[1]Small business commonly refers to any business with annual sales of less than $2 million. However, CBED enterprises are often at the very low end of this scale.

enterprise development strategy of CBED can be a difficult one to draw and can be approached in the following manner. The latter implies a broader set of objectives than that of small business development per se. The small businessperson wants a rate of return on his or her investment, as does the banker or investor supplying capital to the business person. Neither party is concerned that the enterprise create jobs, purchase local inputs, provide job training to marginal employees or provide a needed community service. These concerns do however define the community's perception of socio-economic development so that CBED possesses multiple objectives, only one of which is a rate of return. Each community, through a community organization such as a CDC determines the objectives it wishes to pursue and the strategy to be followed. However, achieving a rate of return may predominate in the sense that it is a pre-condition for the other objectives which comprise socio-economic development. Choice of the small business creation strategy of CBED requires that only those small businesses which enable community objectives to be met should be encouraged. Therefore, small business development is not the end, it is the means.

Chartered banks are the major financing source of small business in Canada according to a 1985 Canadian Federation of Independent Business (CFIB) survey. Eighty-six percent of its 64,000 small and medium-sized businesses reported doing most of their banking with a chartered bank as illustrated in Table 3.

TABLE 3

Financial Institutions Used Most for Small Business Lending

Financial Institutions	Percent 1982	1985
Big Five Chartered Banks	85.4	78.1
Credit Unions and Coops	10.0	10.5*
Other Chartered Banks	6.0	8.1
Other	3.0	2.3
Trust and Finance Cos.	0.4	1.0

* The credit union figure is skewed by the large share of business lending carried out by caisses populaire in Quebec.

Source: Canadian Federation of Independent Business. 1985 Banking Survey 1985.

Similarly, banks claim that small business is an important part of their lending portfolio, accounting for almost 25 percent of the Canadian dollar volume of the banks total business lending portfolio in 1985. (Grant 1986)

Despite high levels of use however, the business community has also repeatedly criticised the chartered banks charging that small business loans are inadequate, their terms are bad, rates of interest are higher than for larger businesses, and that small business owners are faced with excessive security demands. A lack of bank competition, inappropriate bank procedures and the specific attitudes and capabilities of the bankers themselves are held responsible for this poor performance. (Hatch 1982) In fact, the CFIB (1982; 1985) has made a point of monitoring the record of financial institutions in relation to the small business sector, undertaking frequent surveys of the small business community it represents. Table 4 is a sample of the findings from the 1985 Banking Survey regarding the level of satisfaction by small and medium sized business with business lending by financial institutions. It should be noted that the highest levels of dissatisfaction were recorded in the two Western most provinces; in B.C. 40.3 percent of small businesses surveyed were dissatisfied, followed by Alberta with 34.1 percent.

TABLE 4

Satisfaction with Services Provided by Financial Institution

	Percent			
	Highly Satisfied	Reasonably Satisfied	Somewhat Dissatisfied	Strongly Dissatisfied
National Results	17.0	54.7	18.4	9.8
Royal Bank *	17.2	55.2	18.2	9.4
Bank of Montreal *	10.5	50.9	18.2	9.4
Other Chartered Banks	23.5	50.3	15.5	10.6
Trust and Finance Cos.	34.2	49.7	7.5	8.5
Credit Unions, Coops	23.3	61.9	10.4	4.3

* The highest and lowest ranked of the 'Big Five' chartered banks respectively.

Source: CFIB. 1985 Banking Survey. 1985

Compounding the above mentioned situation is the fact that small business has virtually no other source of capital as do larger firms. There are few firms actively involved in small business equity financing because the amounts required by small businesses are typically lower than floor investment levels. Debt financing is often the only alternative.

Do chartered banks restrict their small business lending in the above mentioned ways? A study which specifically undertook to investigate these charges found that:

a) banks tend to charge higher rates of interest on small business loans and

b) banks insist on personal guarantees and personal collateral from the principals of small firms, more so than with large firms. (Hatch 1982)

While these findings appear to support the inaccessibility hypothesis of the small business community, the study goes on to state that the above mentioned banking practices are reasonable. The authors:

> feel that the higher loan rates are justified by the additional risks and administrative costs in lending to small firms. The collateral difference seems to result from the characteristic that bankers would attribute as being most unique to small business, namely, the fundamental importance of the owner-operater in shaping the company's success. (Hatch 1982)

The presence of a high risk element in small business loans was not proven conclusively; in fact according to the study, "within a specific risk class, small firms pay more than large firms for their operating and term credits." (Hatch 1982) It did determine that bankers appear to believe that small businesses are more risky. At any rate, the study goes on to state that if risk is not the culprit, it is the additional administrative effort required that is to blame.

However, the study did not possess adequate information on loans that were turned down by the branch manager as "unbankable" before a formal application was made. In failing to capture information on the large number of loan turn downs at the initial stage of consultation between the business person and banker, the study minimizes the extent of biases against small business. There have however, been some attempts to even the distribution of business loans by size with the Small Business Loans Act and the creation of special small business (or independent business) divisions at chartered banks.

In recognition of the special problems faced by small business in obtaining access to credit, the federal government created the Small Business Loans Act (SBLA) in 1961. Chartered banks and other institutional lenders may use the Act to provide term loans to small business for the purchase of specified fixed assets with the additional backing of a government loan guarantee. The Act is meant to provide loans up to a maximum of $100,000 to small businesses which likely would not otherwise qualify for a loan. However, SBLA loans represent only a fraction of all business lending by volume, about one percent, for reasons which are explained below. The chartered banks accounted for the largest share, approximately 90 percent in 1982 and 1983. Credit unions represented only 4 percent of SBLA loans. (Hatch 1982) Figures show that a large proportion of lending under the Act is for new business although this is not explicitly intended.

The program does not appear to be entirely successful according to a recent study carried out by the University of Western Ontario. (Hatch, Wynant and Grant 1985) Roughly 50 percent of SBLA loans would have been made in the absence of the program, and SBLA loans made by the chartered banks are only modestly riskier than conventional bank loans. The study also found evidence that the program is not well understood by the lending community or small business owners. (Hatch, Wynant and Grant, 1985) Furthermore, one chartered banker stated that only ten percent of his bank's loans were made under the Act because a) it is too restrictive in terms of security requirements, terms and amount borrowed, b) the interest rate is too low for a term loan and c) the bank had experienced difficulty in collecting on bad loans from the government. (Brian Hann, Manager Independent Business, Royal Bank, December 1986) This review of the SBLA reveals it is problematic and potentially not fulfilling its objectives with respect to small business lending.

Most of the discussion here has focussed on the chartered bank as a financial resource, its most likely role. However, there are some instances where banks have recognized the value of combining management advice and other information to the client in order to complete the loan. Rather than viewing the excess time and effort required as a barrier to small business lending and citing the traditional 'high transactions cost' argument, some have institutionalized this assistance with the formation of separate divisions to handle small business loans. The need for management advice arises because small business often lack skills in key management areas and do not have adequate experience in small business management. These specialized small business loan departments may be viewed as: a) a decentralization of loan authorization authority, and b) an attempt to provide further security for small business loans. In the absence of contrary evidence, the chartered banks appear to have little interest in the development of local capacity for long term development; their contribution is primarily financial and to a lesser degree in providing management advice.

Chartered banks have not actively pursued lending for CBED, but do have a somewhat better record with respect to small business. Banks look for an acceptable rate of return on their loans and do not include broader objectives such as increased local employment among their goals thus limiting their potential as a source of support for CBED.

Regional Implications of Bank Lending

Apart from the issues related to bank financing of small business, a perception that chartered banks discriminate against the West in their lending activities also motivates the search for alternative financing by CBED organizations. In referring to a B.C. NDP government proposal in 1975 to establish B.C. Savings and Trust, a provincially owned financial institution, Benson (1978) described the proposal not as an isolated incident but rather as an "expression of a long-standing and widespread disaffection for existing financial institutions..." In fact, the Bank of British Columbia was created out of similar sentiment in the 1960s. This long-standing disaffection, particularly for chartered banks head-quartered in the East, is difficult to substantiate in a useful way owing mainly to a lack of data. (Benson 1978; Federal Government 1973) Hence, only a review of the leading issues and their significance for CBED will be undertaken here.

The claim that banks "drain" capital from the West for use in the further industrialization and economic diversification of the East is illustrated by the following statement.

> The chartered banks stimulation of development of Central Canada appears to have been done at the expense of the other regions of Canada. By mobilizing Western Canada savings and transferring them to Central Canada, the banks, in effect, have reduced the development potential of the West. (Western Economic Opportunities Conference 1973)

An additional criticism, which is in some respects linked to this allegation, holds that a lack of bank competition exists is Canada which results in higher interest rates than are justified and less flexibility in lending policy which may be reflected in regional discrimination. (Federal Government 1973) However, an examination of the issues surrounding the competition debate are beyond the scope of this paper.

The Western Economic Opportunities Conference in 1973 provided a forum for the discrimination debate. However, much of the debate then was based on limited and inadequate data as it is today. In fact, it was only after this conference that the banks began to supply figures for assets and liabilities of the system on a provincial basis. The federal government's position was a moderate one, stressing the efficiency of the branch banking system, while recognizing the "lack of responsiveness" resulting from the location of corporate head offices in Toronto and Montreal. (Federal Government 1973) The Canadian Bankers Association produced statistics purporting to document the contribution made to the West in terms of employees, number of branches, and loans; evidence that would "show that far from 'draining resources' from the West, the chartered banks in fact support Western Canada disproportionately..." (Canadian Bankers Association 1973) With the exception of directors, the above proportions were greater than the West's share of population as illustrated in Table 5.

TABLE 5

Chartered Bank Statistics 1973

	British Columbia		Western Canada	
	number	percent of Canada	number	percent of Canada
Population	2,291,000	10.4	5,865,000	26.6
Bank Branches	744	11.3	1,974	30.4
Bank Employees	13,068	12.2	28,500	27.2
Bank Directors	36	12.9	69	24.7

Source: Canadian Bankers Association. The Banks and the West. Special edition of the CBA Bulletin. Vol 16 No 2 July 1973.

This data addresses the contention that chartered banks tend to discriminate against peripheral regions because their head offices are located in the East. By extension, the most sigificant aspect of this argument implies that lending decisions are made at head office. If however, lending decisions are made at the local level, either at the branch or regional office, then this argument is rendered meaningless. Again, evidence on this question is sparse and often contradictory. The Chartered Bankers Association (1973) virtually admitted some validity to this assertion in a brief to the above-noted conference: "a continuous process of decentralization of authority has been going on for some years..." However, it does appear that small loan amounts are approved at the branch level. (Brian Hann, Royal Bank interview December 15, 1986; Benson 1978)

In addition, the Bankers Association prepared a study allocating total domestic assets and liabilities of Canadian banks on a provincial basis for the first time. These figures showed that adjusted assets exceeded liabilities in each of the Western provinces (or loans exceeded deposits) in every Canadian province except Ontario. John Benson (1978) argues that testing for discrimination in the manner followed by the Canadian Bankers Association is problematic because, "the provincial distribution of bank deposits is largely outside the ability of the banks to control." Instead, banks, as both payments institutions and financial intermediaries, reflect the structure of the economy and the nature of its balance of payments with other provinces and countries. Thus, British Columbia which is demonstrated to have a current account deficit, receives less from outside the province than residents pay out of province for goods and services.

The controversy surrounding the discrimination debate is exacerbated by definitional differences. Does discrimination occur when bank customers in different regions receive different treatment by bank activities or policies? Or does it occur when national practises followed by banks result in "fortuitous or incidental geographical impact?" (Benson 1978)

The issue has not been resolved. In fact, it was recently resurrected with the sale of the Bank of B.C. Nevertheless, the perception of regional discrimination by the chartered banks towards the West persists. Even a Royal Bank executive admits that if he were not a banker who "knows for a fact" that discrimination does not occur, he would assume the existence of discrimination just by virtue of the fact that the head offices are located in the East. (Brian Hann, Royal Bank, December 15, 1986) From this review of the major issues in the discrimination debate it is clear that analyses are hindered by a lack of information, but while the evidence is not conclusive, there is a widely held perception regarding the existence of discrimination within the banking system. When this perception is coupled with the chartered bank's apparent lack of interest in CBED it is clear that CBED organizations must seek the resources they require elsewhere. Government programs are more likely to respond to the mix of social and economic objectives inherent in CBED.

Government Programs For Community Based Economic Development

The Highland Resources (1983) survey found that the most frequently cited source of funds among CBED groups surveyed were federal and provincial government programs as demonstrated in Table 2. Use of federal government programs outnumbered provincial government programs and Canada Employment and Immigration Commission programs were most frequently used. A string of CEIC employment programs have been directed at CBED since the early 1970s beginning with the Local Employment Assistance Program (LEAP). While these programs were commonly used, the survey also found that 57 percent of those who do receive government assistance felt that federal government programs did not meet their organization's main needs. Of those with access to government funds, 22 percent felt that restrictions on the use of funds were a major impediment. Clearly then, government support of CBED both in terms of general applicability and financing is problematic. Local Employment Assistance Development or LEAD, the most commonly used program according to a recent study (SPARC 1984), will be the subject of this section.[1] The experience of CBED groups with this government program will be examined to determine if it has been successful in eliminating barriers to community based economic development and to consider some of the weaknesses of the program.

Local Employment Assistance Development (LEAD) Explained

The LEAD program was established by Canada Employment and Immigration Commission in September, 1983 and was replaced by the Community Futures program in 1986. It was designed

---

[1]Numerous government programs aimed at economic development, regional development, job creation and small business development exist at any point in time, many of which prove useful to CBED groups. However, they are too numerous to be explored in detail here. Appendix B provides a listing of federal and B.C. Government programs as well as a brief summary of each. For more information, consult Nielsen, Carol and Nancy McLeod, Community Economic Development 1986 Resource Directory for British Columbia, Vancouver: SPARC, 1986.

specifically to deal with structural unemployment in disadvantaged regions of the country by increasing the number of permanent jobs. Under the terms of the LEAD program, only small communities with a population under 50,000 were eligible, providing that there was:

a) an unemployment problem more serious and persistant than in other localities,

b) potential for increased employment and

c) demonstrated capacity for planning and economic development.

Furthermore, any organization representing community development interests was eligible to apply for funding under the LEAD program.

LEAD provided funding to meet its objectives through LEAD corporations and LEAD projects. The former were charged with assessing possibilities for new employment creation in the private sector and providing technical consulting to local businesses and entrepreneurs. They could also invest in local business through the provision of debt financing, equity or loan guarantees. Thus, the LEAD corporation was structured to address two of the three major barriers to CBED identified in Chapter 2. The third, local capacity to develop, was a pre-condition for eligibility rather than an objective of the LEAD corporation. Each corporation was incorporated as a non-profit society governed by a local business-oriented board of directors. Separate funding was available for both the planning and operational stage of LEAD corporations. In the case of a LEAD corporation, the planning stage could not exceed 12 months and could be approved for operational funding for an initial period of up to five years, subject to annual review.

The LEAD project consisted of three components: a planning project to analyse the community's economic position; an infrastructure project to build physical capital such as roads or a harbour; and an enterprise project which would support new business ideas. In each of the above components, an important consideration of the funding process was that the proposed activities would not occur without LEAD funding and therefore would not compete with the private sector or cause workers at existing businesses to be laid off as a result. LEAD corporations and projects were expected to hire unemployed people and each component was eligible for a maximum funding period ranging from one to five years. In the 1985-86 fiscal year, a total of $68.3 million was spent on the LEAD program and its successor Community Futures. (CEIC 1986)

Community Futures is a component of the new Job Strategy announced in 1985; however, Community Futures did not become operative until 1986. It is quite similar to its predecessor LEAD, but differs in that it is only available in communities designated by Employment and Immigration Canada and does not provide capital to purchase buildings and equipment, as did its predecessor. There are five programs options from which a specially established Community Futures Committee may choose: the Self-Employment Incentive to provide income support while a new business is established, Business Development Centres to perform the functions of LEAD corporations, Purchase of Institutional Training, Relocation Assistance and a Community Initiatives Fund for projects not covered by other Community Futures program options. The inclusion of relocation assistance is not particularly consistent with the objectives of CBED. Another Job Strategy program, called Innovations is also used to fund CBED. It is a flexible program which provides financial assistance for pilot and demonstration projects which test new solutions to labour market problems.

Short Term Job Creation vs Permanent Job Creation

Commitment of expenditures by the federal government in the past on structural employment programs such as LEAD have been small in comparison to short term job creation initiatives. For example, from the 1971 to 1979 fiscal years, almost $2 billion were spent on federal direct job creation.[1] Of that, $1.5 billion was used to support short term employment such as Winter Works and Canada Works, while only $175 million was allocated to programs with explicit long term objectives such as LEAD. (CEIC 1983) If long term employment development expenditures are compared to all labour market expenditures excluding unemployment insurance in 1985-86, only 4.8 percent of the funds were allocated to the LEAD-Community Futures Program. (CEIC 1986)

Short term job creation has been a consistent strategy of

[1]This figure does not include tax expenditure programs designed to create jobs in the private sector.

the federal government in the face of high unemployment rates for many years. Job creation was first introduced in the 1930s with Relief Camps and Job Corps. Then, in the 1950s the Winter Works Program, a federally-funded, municipally delivered seasonal job creation program was initiated. Short term job creation continues to be used today to allow participants to qualify for Unemployment Insurance; however, the 'UIC - welfare - make work - UIC shuffle' is not a long term employment development strategy. For example, an Economic Council (1976) study found that most of the 250,000 jobs created through the Local Initiative Program were indeed temporary and that participants returned to government income support. It is ironic that these programs are viewed as 'temporary' when they are continually re-introduced under different names. Short term job creation is evidently a long term employment policy of the federal government.

LEAD was not the first community oriented employment program of the federal government. Some early government job creation programs of a cyclical and seasonal nature such as the Local Initiatives Program (LIP) and Opportunities for Youth (OFY) were designed as community based strategies:

> Participants will have opportunities to work on non-profit projects of a meaningful nature, to test their aspirations, to develop skills and contribute to the social fabric of their communities. (CEIC, 1984 quoted in Strandberg 1984)

However, these projects differed from CBED in that they were again only temporary jobs.

The Local Employment Assistance Program (LEAP), introduced in 1973, began the trend towards involvement of the chronically unemployed and concern for the creation of long term jobs situated in small entrepreneurial settings. LEAP projects had a large training component, received funding for up to three and a half years and were not restricted to small rural communities. Local Economic Development Assistance (LEDA) a joint program of CEIC and DREE, was launched in October, 1980 as a further innovation in the search for an alternative to short-term job creation. It was a departure from public sector job creation in favour of employment in small business enterprises in distressed communities. In its eligiblity criteria and objectives, LEAD is remarkably similar to its forerunner, LEDA.

Assessment of the LEAD Program

What has been the experience of CBED organizations with respect to the LEAD program? A detailed evaluation of the program has not been made available to this date,[1] so information in this section is derived from informal reviews of LEAD in the literature and personal interviews with those involved in the program. According to information from Employment and Immigration Canada to March 31, 1986, over 5500 full-time and about 2000 part-time jobs were created by 73 LEAD corporations since the inception of the program, at an average

---

[1]Maureen Casey, CEIC, Community Futures, Ottawa, personal communication December 1, 1986. An evaluation of a sample of LEAD corporations is underway, to be made available some time in Spring, 1987.

cost of $3700 per job. This includes corporation loans, loan guarantees and equity participation. (CEIC 1986) Only a small proportion of jobs created were for women, visible minorities and the disabled. (CEIC 1986) There were 13 LEAD corporations in operation in B.C. in 1986.

One of the major criticisms of the LEAD program centers around its tendency to frustrate the objective of many CBED organizations to become self-financing. The original intent of the LEAD corporation component of the program was that the community development corporation would be able to support its operations through income from commmunity investments after a five year period. Although the program was terminated after three years most of the LEAD corporations have subsequently transferred into the new Community Futures program. Even so, the disruption and more importantly, uncertainty generated within the organization by frequent program changes is alarming. Several other weaknesses of the LEAD program are evident.

Firstly, numerous rigidities in the LEAD corporation component funding formula acted to inhibit the attainment of self-sufficiency according to the Alberni Clayquot Development Society (1984). Features such as a pre-determined funding level per year and quarterly disbursements, resulted in delays, excessive paperwork and more importantly, contradicted some of the advantages of a community-based organization, such as quick approval of a loan application. More specifically, the $25,000 limit per annum per business was felt to be unduly restrictive and suggests a lack of commitment to permanent job creation through community based economic development. Greg MacLeod holds that the government places more restrictions on CBED organizations than on private corporations. "It gives money to Dome Petroleum and lets them use their initiative and imagination." (Forget Commission Report 1986)

The findings of an interim evaluation of the planning stage of the LEDA corporation provide some valuable insights into the LEAD program, given the similarity of the two programs. (CEIC 1982) One of the fundamental questions raised in this evaluation concerned the ability of a LEDA corporation to accommodate a wide spectrum of community aspirations, which often include social and cultural objectives as well as economic ones. It was concluded that the structure and budget of the program were not equipped to include social and cultural objectives. Rather, the LEAD program focussed on financial and technical assistance for small private sector ventures, primarily in support of the latter's economic objectives.

The LEDA evaluation also questioned the strength of community commitment to a CBED program in which the initial impetus, the lure of funding, comes from above. While it is up to the community to respond to the call for proposals (in most cases) the motivation for CBED can in part be attributed to the existence of the program itself. The Community Futures program is even worse in this respect as communities are designated by the Minister in the absence of community input. Therefore, one of the essential sources of community based economic development identified in Chapter 2, local control is absent in this initial stage.

The short planning horizon allocated to the LEDA corporation (three years) was also deemed insufficient by the study in light of the long term nature of community based economic development. It was estimated that five years represents only the short to medium term in a CBED process.

In general, the difficulties associated with long term community based employment efforts typified by LEAD can be summarized as follows:

1. Community dependency exacerbated by reliance on outside resources.
2. Program regulations frequently distort community priorities and undermine local control.
3. Programs do not accommodate a wide spectrum of community aspirations; focus on business development.
4. Programs imposed from above rather than from the community itself.
5. Short term perspective.

Clearly, these problems are persistent in various government efforts to support community based economic development. There exists a basic dilemma for those involved in community based economic development: government support is essential, but the bureaucracy and regulations accompanying such support conflict with the organization's basic goal of self-sufficiency.

Summary

In examining the role of the credit union in supporting CBED, primarily in financial terms, it is important to understand the limitations and strengths of current CBED funding sources. An understanding of these help to delineate the requirements of CBED which credit unions should attempt to address. To summarize, there are significant gaps in the respective abilities of chartered banks and government programs to overcome the three barriers to CBED. A useful way of characterizing the non-relationship of chartered banks with CBED is illustrated in the following manner. The first objective of CBED is local economic development using business techniques and tempered by social and cultural considerations. Chartered banks do not share these concerns and thus do not participate in lending for community based economic development to any great extent. However, chartered banks are adequate small business lenders who provide information and management advice to their small business clients, some of whom may exist as a result of CBED. Furthermore, their operations have laid them open to claims of regional discrimination, so that, at the very least, the banks have no regional perspective consistent with that of CBED.

There are three significant features of government community based economic development programs which deserve comment. Firstly, long-term employment creation programs such as LEAD are currently an important funding source for many CBED organizations, perhaps due to the lack of alternatives. However, federal expenditures on long-term job creation in disadvantaged regions and elsewhere are inadequate in comparison to monies spent on short-term job creation. Thirdly, government programs such as LEAD aim to fill the financial and management advice requirements of CBED, but suffer from some serious limitations stemming from government delivery of a program to an organization which seeks self-sufficiency. The credit union will now be examined to determine its potential for partipating in CBED.

CHAPTER 4

CREDIT UNIONS

Having investigated the nature of the problems confronting CBED groups in their dealings with chartered banks and federal employment creation programs, it is now useful to examine the potential role of the credit union in addressing these needs. Credit unions are unique financial institutions which have undergone tremendous change in terms of size, membership, operation and philosophy since their inception at the turn of the century. The small informal credit union of the early days has been replaced by the small bank with a social conscience. In fact, there is a good argument for dismissing the credit union as just another 'near bank'.[1] At the same time, it is possible to hypothesize that credit unions are well-suited to participate in CBED for three reasons. First, as financial institutions, they possess an asset base and infrastructure which could provide a substantial source of funds or vehicle for collecting or managing pools of money in aid of CBED. Secondly, credit unions are cooperative organizations with an organizational structure which is responsive to the membership, or 'community', and a philosophy of self-help. Thirdly, credit unions often

---

[1]Near banks are deposit taking businesses incorporated under federal legislation other than the Bank Act, or under provincial legislation which consequently do not have the right to describe themselves as banks or their business as banking. They are however engaged in offering many of the same services as banks, and in this way, they are in the business of banking.

possess a common bond based on geography such that they are likely to take a local perspective in their dealings. The purpose of this chapter is to examine these assertions to determine whether credit unions are well-suited to play a role in community based economic development.

The first part of the chapter looks at the history, philosophy, growth, the nature of current activities and some of the issues credit unions face in the 1980s. The second part examines the characteristics of credit unions which make them well-suited for participating in CBED and looks at the potential contribution credit unions can make to the CBED process. This is accomplished by reviewing the likely strategies and roles for credit unions, as well as constraints to their participation.

The Credit Union

History of the Credit Union Movement in Canada

The first Canadian (and North American) credit union was developed by Alphonse Desjardins in Levis, Quebec in 1901. Called a caisse populaire or people's bank, it was in part a response to charges of usury witnessed by Desjardins as a parliamentary reporter in the House of Commons. In his words:

> It was the deplorable revelations brought about by law suits in Montreal and elsewhere, where poor borrowers had been obliged to pay infamous usurers rates of interest amounting to several hundred percent for most insignificant loans, that induced the writer to study carefully this problem with a view to finding out the best possible solution. (Desjardins, 1914 quoted in Neufeld 1972)

Additional motivations for the credit union are cited as a lack of credit for craftsmen and farmers and French nationalism. (Macpherson 1979; Melnyk 1985; Thompson 1978) A further viewpoint attributes Desjardins' motive to the Quebec political and religious philosophy of "la survivance" which rested on the three pillars of the Church, the Soil and the Hearth. "The caisse populaire both buttressed and rested upon these same three pillars." (Thompson 1978)

Desjardins studied the European cooperative banking movement especially in Germany and Italy, and corresponded with several key members including Wolff, a key British cooperator. Many of the principles and the organizational framework for the caisse populaire thus originated with these movements. The Schulze - Delitzch cooperative society which originated in Prussia in 1850 was a prime influence. It was an urban loan bank intended to serve the lower middle-class business person. Loans were made on the basis of character rather than collateral or security, an important principle in the future of the credit union. While loans were available only to members, deposits (or shares) were taken from the general public, primarily well to do investors. (Neufeld 1972) Today, the Schulze - Delitzch system is a group of commercial banks and small credit societies.

Friedrich Raiffeisen of Germany, motivated by usurious loan charges to the rural poor, first organized a pool of loan capital underwritten by wealthy patrons in the 1850s. This effort failed because the charitable enthusiasm of his rich supporters waned. The bank re-opened in 1864 under a new set of principles advocating self-help but with a less progressive attitude toward membership. This was restricted to those approved by fellow members and with proof of ownership of tangible assets. Today the Raiffeisen bank retains its small, rural, cooperative characteristics. (Neufeld 1972)

The parish based credit union system organized by Luigi Luzzatti of Italy in 1865 particularly interested Desjardins. These banks offered limited liability to members and established a small par value for shares. Several of the principles governing early credit union operations in Canada were introduced here as well; the notion of one member one vote, a willingness to assess a member's reputation for loan security, and establishment of a reserve fund to guarantee against losses. By 1919, the first credit union in Milan had almost 25,000 members and 735 similar institutions had been started. (Bergengren 1940)

In forming a Canadian "people's bank", Desjardins integrated several of the European approaches to cooperative credit. For example, from Raiffeisen he took the "bond of association" concept, and from Italy, the notion of limited liability, democratic control and loans based on character. Called the Caisses Populaires de Levis, its top priority in lending was to provide loans to families in the order of $15 to $25. Otherwise, the caisse populaire encouraged thrift over credit. The clergy in Quebec wholeheartedly supported the caisse populaire:

The parish provided not only the territorial

> boundaries of the caisses populaire, but also its institutional sub-structure. Given the tremendous power of the church in the social life of Quebec, ... the parish was the dominant bond of association. From its origins in 1900, the caisse populaire movement was blessed from the pulpit and actively supported by the clergy. (Thompson 1978)

With the help of the clergy, over 150 similar caisse populaires were operating in Quebec by 1907. However, the caisse populaire made minimal progress in expanding outside the province.

Desjardins also spent much effort in trying to obtain federal credit union legislation, since early credit unions were unregistered and unincorporated. Federal credit union legislation failed to pass through Parliament until after Desjardins death, but the Quebec Cooperative Syndicates Act became law in 1907, the first credit union legislation in Canada. The purpose of the caisse populaire according to the Act was to "study, protect and defend the economic interests of the labouring classes."

While the caisse populaire proved immensely popular in Quebec, the role of transferring the concept to other regions in Canada fell to the Antigonish movement. This Nova Scotia based liberal Catholic movement had a significant impact on the spread of credit unions because of its emphasis on adult education as a means of self-help. Two of its founders, Dr. Moses Coady and Father James Tompkins of St. Francis Xavier University, saw the potential of the credit union to address the economic inequalities of the Maritimes. In a chapter entitled "The Significance of the Credit Union", Dr. Coady (1939), the philosopher of the Canadian cooperative movement stated that a credit union:

> ...is an instrument through which the common people can make their money work for them in their own communities.

The practical aspects of credit union operation did not interest Coady, rather, "... the credit union has intangible values that are probably more important than its function as a banking institution." Furthermore, credit unions were to provide the mechanism through which a full "cooperative program" could be carried out.

The study group approach employed by the Antigonish movement to spread cooperative development operated in the following manner. Typically, an organizer would enter a community and using whatever contacts could be found, call a public meeting to assess the community's strengths and weaknesses. A study club would be organized, and a series of meetings would occur which would usually result in a number of cooperatives being established to overcome the particular difficulties identified. The first credit union in Atlantic Canada was formed in 1932.

Bergengren, an American schooled in credit union ways by Desjardins, was invited to prepare legislation governing credit unions which culminated in the Credit Union Act of Nova Scotia, 1932. It described the credit union as:

> ...[being] organized for the two-fold purpose of promoting thrift among its members and creating a source of credit for members at legitimate rates of interest for provident and productive purposes.

Thus it was that most of the early information about credit unions came from the Maritimes rather than Quebec. The same held true for the expansion of credit unions into the West. Prairie farmers became interested in credit unions during the depression, when banks were forced to close. Lack of access to credit became a problem and with a long-standing tradition of grain handling and consumers cooperatives, the credit union provided the solution. Indeed, "Prairie people view cooperation as a way of life..." (McGuinness 1976) Saskatchewan credit union legislation was enacted in 1937. The first British Columbia credit union, called the Common Good Cooperative Association Credit Union, opened in Burnaby in 1936 with the help of the UBC Extension Department.

Growth of the Credit Union Movement

After the Depression, many caisses populaires and credit unions were chartered, as were a number of credit union centrals. According to McGuinness (1976) Canada began a twenty year period of credit union expansion in the 1940s unmatched by any other country in the world. Table 6 shows the dramatic growth pattern of credit unions in Canada, in terms of membership, number of credit unions, number of credit unions and branches, average membership and membership as a share of population. Until the 1960s credit unions could still be described as small thrift and credit associations with about 600 members per credit union. (CFDP 1982) The table shows however, that by 1981 this had increased to an average of over 2000 members per credit union. The 1960s proved to be the watershed for credit unions in a number of ways: they began to expand

TABLE 6

CREDIT UNION GROWTH
CANADA 1900 - 1981

Year	Membership	Number of Credit Unions	Number of Credit Unions and Branches	Average Membership per Credit Union	Membership as % Population
1900	80	1	1	80	NA
1910	3780	31	31	122	0.1
1920	31752	200	200	159	0.4
1930	45767	266	266	172	0.4
1940	201137	1167	1167	172	1.8
1950	1036175	2965	2965	349	7.5
1960	2553951	4608	4608	554	14.2
1970	5203402	4595	4824	1079	24.4
1980	9652291	3595	4449	2169	40.1
1981	9842120	3448	4321	2278	40.4

SOURCE: Statistics Canada, Catalogue 61-209, 1983.

through branching of existing credit unions rather then creating new locals; the number of credit unions was highest in 1965 when consolidation began; and credit union assets grew faster than total financial intermediary assets up to 1967. (Neufeld 1972)

Credit Unions Today

Credit unions are distinct from banks and other financial institutions in that they are owned and controlled by members, on a one-member, one-vote basis. Another distinguishing feature of the credit union is the common bond of association. This bond defines credit union membership and may be organized on a geographic basis, along occupational or professional lines, or on ethnic or religious grounds. In Canada, with the exception of Ontario, the geographical common bond prevails. However, the effectiveness of democratic control and the strength of the common bond of association today is questionable. For example, in B.C. a credit union with a geographic common bond may admit members from outside the bond "who in the opinion of the directors may be conveniently served by the credit union." (B.C. Credit Union Act, 1985) This is termed a partial opening of the bond, as opposed to a closed bond. Some associational or professional common bonds are not entirely closed either.

Early credit unions were basically savings and loans institutions providing consumer credit in small amounts to members. However, with the increasing complexity and competition in the financial marketplace, credit unions have become full service financial institutions, providing a wide range of options for the member to the point where credit cards and automated teller machines are commonplace. The introduction of the credit card is interesting in itself since early cooperative principles promoted the use of cash over credit. Credit unions are primarily mortgage and consumer lenders as shown in Table 7; fully 53 percent of loans are made for residential mortgages and 26 percent for personal loans in Canada.

TABLE 7

Local Credit Unions Loans Outstanding
(thousands of dollars)
Canada

Loans	Third Quarter 1986	Percent
Non-mortgage		
Personal	8,809,084	25.9
Farm	1,127,408	3.2
Commercial, Industrial and Cooperatives	2,758,443	7.8
Other	484,077	1.4
Mortgage		
Residential	18,809,100	53.2
Farm	1,184,212	3.3
Commercial, Industrial and Cooperatives	1,829,516	5.1
Other	371,341	1.0
Total Loans	35,373,181	100.0

Source: Statistics Canada. Financial Institutions. 61-006. Third Quarter, 1986.

Credit unions are chartered and operate under provincial legislation; the Credit Union Act governs the types of investments permitted, rates of interest and statutory reserve requirements. Credit unions function as autonomous organizations owned and controlled by the members, each having their own charter and governed by a board of directors made up of volunteers elected from the membership. In the case of a small credit union, a credit committee is formed to evaluate loan applications. A large credit union on the other hand, might allow the board to appoint a credit committee, or increasingly, a professional loans staff. Depending on the size of the credit union, the board delegates responsibility for day to day operation to the manager. Obviously, the composition of the board of directors will determine the philosphy under which the credit union operates.

Local credit unions are part of a large federation of credit unions around the world through various regional, national and international organizations. The first level is the provincial central credit union, which is formed by individual credit unions and is essentially the voluntary trade association of the credit unions. It is charged with responsibility for providing services to member locals and generally carrying out planning, administration and research for the credit unions. A board of 15 directors governs B.C. Central Credit Union, each a member of a B.C. credit union or cooperative and chosen on a regional basis. Voting at B.C. Central meetings is proportional to credit union membership, whereas previously, conventional cooperative wisdom had ensured that each credit union had one vote regardless of size.

The Credit Union Deposit Insurance Corporation (CUDIC) is the second regulatory and administrative body in the province of

B.C. CUDIC provides 100 percent deposit protection to local credit unions. The provisions of the Credit Union Act permit the CUDIC to exercise controls over the operations of individual credit unions and among other things, to approve all investments, major contractual commitments, changes to rates of interest and the declaration of dividends. Furthermore, CUDIC may act to place a credit union under its supervision for one of two reasons. In the first case, the local credit union may request supervision if it foresees trouble arising, or CUDIC may suggest supervision on the basis of regular inspection and monitoring. The second scenerio occurs when the credit union cannot meet it statutory reserve account. In this case the credit union will be placed under supervision. The five members of CUDIC are appointed by the provincial Cabinet and operate under the authority of the Ministry of Consumer and Corporate Affairs.

A third tier organization called the Canadian Cooperative Credit Society (CCCS) operates at a national level. Its members are provincial central credit unions (through which individual local credit unions are represented), other financial cooperatives, and producer, consumer and marketing cooperatives. It was formed in 1953 to provide financial services to member organizations; it is essentially the central bank of the cooperative movement. Its areas of responsibility are the provision of liquidity to the credit union system and loans to member organizations. Together with the provincial credit union centrals, it is required to meet minimum liquid reserve requirements of the Cooperative Credit Association Act under which the CCCS is chartered. As such, the provincial centrals are eligible for liquidity assistance from the Canada Deposit Insurance Corporation. In addition, CCCS also provides administrative, educational and management support to members, and represents Canada at the international level.

A final tier in the credit union system is the World Council of Credit Unions (WOCCU) which is based in Madison, Wisconsin, and overseas cooperative extension and education around the world. Currently about 38,000 credit unions in 77 countries are associated through WOCCU. The diagram in Figure 2 represents the organizational structure of the credit union system.

Size of the Credit Union System

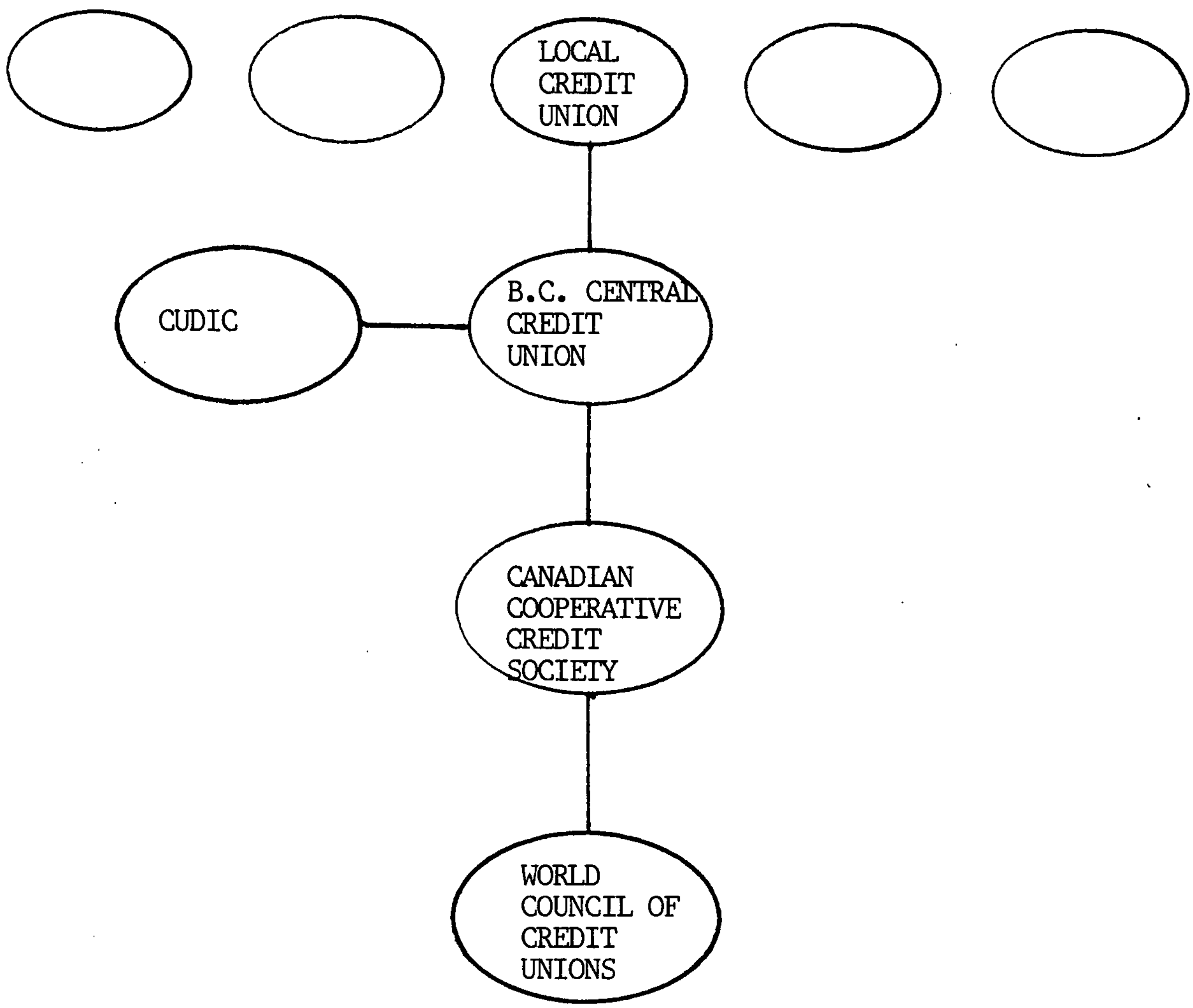
It is difficult to generalize about credit unions for purposes of description for two reasons. Firstly, credit unions are diverse, independent, local institutions with distinct boards of directors and memberships. Secondly, because of this independence and autonomy, information regarding key credit union characteristics is often not available on an aggregate basis.

There is an incredible diversity of credit unions across the country. In fact, there are over 3100 credit unions and caisses populaires with a total membership of approximately 9.5 million people. These organizations differ quite considerably in terms of size and nature of operation. For example, some

FIGURE 2

ORGANIZATIONAL STRUCTURE OF B.C.

CREDIT UNION SYSTEM



small rural credit unions still operate on a part-time basis and only provide basic services. But these small credit unions account for a steadily declining share of total credit union membership and assets. On the other hand, Vancouver City Savings Credit Union is the largest credit union in Canada and the second largest in the world. It has over 20 branches, assets of over $1.4 billion in 1986 and offers an array of financial services to its members. To speak of credit unions as a uniform entity is therefore, misleading.

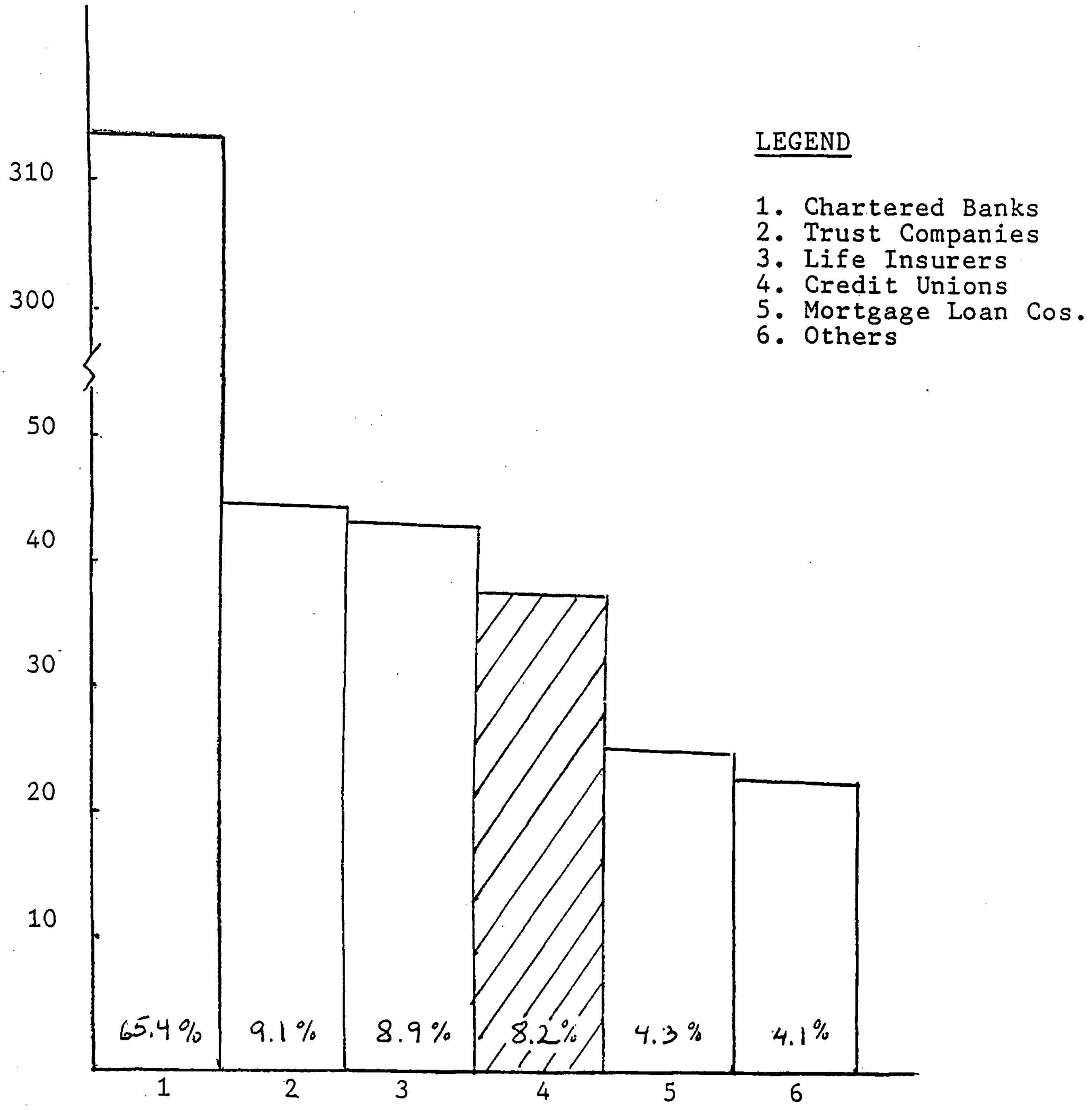
The strength of credit unions also varies by province. Both Saskatchewan and Quebec have the highest credit union penetration, with 30 percent of total bank and near bank assets. In Quebec, the Confederation des Caisses Populaires currently has more than 4 million members and more locations than all branches of the major chartered banks. In the Atlantic provinces, Ontario and Alberta, credit unions account for only 10 percent of total bank assets. (CFDP 1982)

However, to put the credit union in its proper perspective, it is important to note that the combined assets of all Canadian credit unions (roughly $41 billion) are still smaller than the assets of the Toronto Dominion Bank, the smallest of the Big Five chartered banks. Based on 1981 data, Canadian credit unions ranked fourth in terms of total assets after chartered banks, trust companies and life insurers as illustrated in Figure 3. Although Table 6 shows that over 40 percent of the Canadian population are members of credit unions, a seemingly large share, surveys show that only a third of credit union members

FIGURE 3

TOTAL ASSETS OF SELECTED FINANCIAL INSTITUTIONS

(Canada 1981 - billions of dollars)



Source: Statistics Canada *Credit Unions* Catalogue 61-209 1983 see the credit union as their main financial institution. Often credit unions supplement the services a member receives at a bank.

Who are credit union members? At the outset, credit union membership was comprised chiefly of blue collar workers and farmers not well-served by existing financial institutions, but this has changed over the years. A nationwide study in 1979 which interviewed 1600 people evenly divided between credit union members and non-members, showed that credit union members have slightly higher than average incomes and are better educated than the average person. The results of this survey are shown in Table 8 below.

TABLE 8

Credit Union Membership Profile

	Percent	
	Members	Non-Members
ANNUAL HOUSEHOLD INCOME		
Under $8,000	6	12
$8,000 - 14,999	19	24
$15,000 - 29,999	40	28
Over $30,000	24	10
EDUCATION		
Grade School	9	13
High School	51	52
Technical School	14	12
University	23	20

Source: Canadian Cooperative Credit Society. Image-Awareness-Attitude Study 1979 quoted in CFDP 1982.

However, one must be careful not to generalize membership even on the basis of this data; credit unions are extremely diverse, varying quite dramatically according to common bond. For this reason, it is perhaps most appropriate to describe credit union membership as representative of the community as a whole. For geographically defined credit unions this would mean that membership most likely corresponds to the demographics of the area in question. In the case of industrial or occupational credit unions on the other hand, membership would probably be more similar to early credit unions; middle-income blue collar families.

British Columbia's credit union system has the largest credit unions and the most professionalized operations in the country according to Thompson (1978). Credit unions range in size from 26 to 160,000 members and most have assets in the range of $5 to $50 million compared to the rest of Canada where the greatest proportion range between $1 and $25 million in assets. (Statistics Canada 61-209, 1983) In 1985 there were 134 credit unions in B.C. with a total of 315 locations.

Issues Facing the Credit Union in the 1980s

Based on the previous review of the history, growth and nature of the credit union, it is clear that credit unions have changed significantly over the years in a manner that is less consistent with the self help philosophy, and more consistent with its function as a banking institution. A major research undertaking of the cooperative movement under the auspices of the Cooperative Future Directions Project was published as Patterns and Trends of Canadian Cooperative Development in 1982.

A similar study was carried out by the National Task Force on Cooperative Development in 1984. These reviews represent a desire on the part of the movement to evaluate the tremendous growth rates of the past decades and examine the implications for the future. According to the Cooperative Future Directions report, the previously described growth has had several implications for credit unions.

Firstly, for most members, growth has meant an extension in the range of services available. Credit unions have thus been able to compete effectively with other financial institutions, ensuring the survival of the credit union in the financial marketplace. Secondly, there has been a decline in member participation. The third implication relates to the second, in that there has been a decline in the meaningfulness of the bond of association. Both of these can be attributed in part, to the lack in member commitment which is addressed later in this chapter. There has also been an increasing differentiation between small and large credit unions and a resulting lack of a shared vision. This has been institutionalized in B.C. where voting at B.C. Central Credit Union meetings is now proportional to membership, resulting in a situation where a few large credit unions can dominate the proceedings. This move is contrary to the cooperative principle that gives one member one vote. Another criticism aimed at credit unions has to do with their failure to fulfill the broader social goals for which they were first chartered. For instance, the B.C. Credit Union Act allows credit unions to "provide programs and services to its members as in the opinion of the directors may assist the members to meet their financial or social needs" with specific mention of housing. (Part 1, Section 2 1985) Credit unions do contribute to community events, provide scholarships and a host of other service activities; but it is not clear to what extent this differs from the donations made by other corporations. As part of the cooperative movement credit unions are supposed to have a responsibility for educating their members in cooperative principles. A knowledgable membership is felt to be the basis for a cooperative institution of any kind. In Thompson's (1978) view, this emphasis is not reflected in credit union legislation or in practice.

Factors such as those outlined above mean that many of the characteristics which distinguished credit unions from banks in the past have largely disappeared. However, some credit union supporters do not view these issues as problematic The continued growth of the credit union, and its role as an alternative to the chartered banks satisfies many. Therefore, while the above views are not shared by all within the credit union system they are largely indicative of the debate occurring in some quarters. For those who believe credit unions should maintain their distinctiveness from other financial institutions and assume a broader social perspective in their operations, community based economic development provides a logical framework for guiding the actions of a credit union board concerned with social as well as economic issues.

Credit Unions and Community Based Economic Development

While little has been written explicitly linking credit unions with community based economic development, both the credit union literature and CBED popular literature have identified a potential common interest in CBED. Frequently the link is cited as a means of renewing the credit union commitment to social change which is seen to have diminished with increasing size and professionalization. The popular CBED literature on the other hand often refers to the credit union in its search for alternative means of financing. (SPARC 1985; Wismer and Pell 1982) As we have seen, a number of issues have arisen within the credit union system regarding the role of the credit union. Rod Glen, past president of B.C. Central Credit Union, placed these issues within the context of the community:

> Credit unions have to go beyond the simple deposit-and-loan business and play their proper role as a pool of capital for the community, as much as a mine or a forest or people. (quoted in Thompson 1978)

If Glen believed that credit unions should adopt a central role in financing cooperative development, he would be disappointed. According to Melnyk (1985) each sector of the cooperative movement has tended to focus on a single economic issue such as credit or consumption or housing, rather than developing a cooperative commonwealth. This "pragmatic unifunctionalism" has resulted in a business-like attitude to credit on the part of credit unions and there has not been a tradition of financing cooperative development. (CCEC is a notable exception.) Thus, to the extent that one of the strategies of CBED is cooperative ownership of business, credit unions have tended to be less than supportive.

Instead, credit union services are directed largely to the private sector with limited focus on cooperatives and non-profit organizations. This is consistent with community based economic development but Axworthy (1981) recommends a more active approach. He asserts that credit unions have to maintain their distinctiveness from other financial institutions through their actions:

> To improve the commmunity requires better housing and more and better employment. This entails investment in land, lending money to small builders, to cooperative home-building associations, and to municipalities, and providing management and financial services to those who need it. In addition, credit unions on their own account should be involved in the building and renovation of housing for their members and in creating employment opportunities by their investment and lending policies. This can be accomplished by the establishment of subsidiary or related associations involved in production or services and by investment and lending to community-based small businesses or worker cooperatives. Credit unions should make management and financial advice available to such organizations, assisting them through incorporation and with any operational difficulties they might face... Credit unions have a unique role. They must seize the opportunity.

Axworthy expands the scope of credit union activities to include management advice as well as financial services. He also points to the need for subsidiary organizations to carry out some of the community development activities. The next section examines more closely the question of credit union strategies and roles in community based economic development raised by Axworthy's statement.

Nature of Credit Union Participation in CBED

As previously mentioned, CBED consists of an integrated approach to development, one which emphasizes social, cultural, and economic goals, and operates with some measure of community control. Based on the framework of a community economy presented earlier, credit unions may take part in local economic development in two ways. The first involves reducing the outflow of local savings from the community. Money invested in a local credit union can then be channelled into the local area and re-invested in mortgage or personal loans to another credit union member. Thus the strategy is one of mobilizing local savings for local use. Money is circulated through the local economy rather than 'leaked' to a borrower in another region or part of the country. While this is an important credit union function, and indeed one of the early motivations for credit union formation, it is the second which is of interest here.

The second way a credit union may influence the amount of economic activity occurring in the local economy is through its lending decisions in support of local business, housing development and the like. Loans to CBED groups, businesses, or cooperatives which produce goods or services for export or to replace imports, both increase the inflow and reduce the outflow of money from the local economy respectively. A business development strategy implies three distinct roles for the credit union which could address the barriers to CBED. They are a) lending, b) mangement advice and c) building local capacity. These will be considered after the following discussion of the rationale and constraints to credit union participation in CBED.

Rationale for Credit Union Participation in CBED

There are three characteristics of credit unions which potentially make them suitable to participate in CBED. Firstly, credit unions are non-profit financial institutions in the business of making loans and accepting deposits, ostensibly with the financial resources, expertise and physical infrastructure to provide assistance for CBED. Secondly, credit unions share a similar philosphy with community based economic development, one of self-help and mutual aid. This philosophy is complemented by the principles of cooperation which guide the credit union and mean the credit union is subject to community control. Thirdly, credit unions are locally based institutions with the ability to set independent policies to suit the needs of their membership. The following section examines these characteristics.

The total loan portfolio of the B.C. credit union system stood at $4,949 million in 1985, comprised of personal, mortgage and to a lesser degree, business loans. (B.C. Central Credit Union 1986) If B.C. credit unions directed just 5 percent of their combined loan portfolio to CBED, it would yield a fund of approximately $250 million, more than triple LEAD program expenditures in Canada for 1985-86. Thus, the credit union represents a potentially large, untapped pool of financial support for community based economic development efforts. A credit union is also able aid community based economic development efforts in other ways such as through the use of its savings and deposit-taking infrastructure. Thus even if the credit union loan portfolio is not the source of funds, it may be helpful in managing the funds. An example of this is provided in Chapter 5.

Secondly, the philosophy of the Antigonish model of economic self-help and cooperation long associated with credit unions is remarkably similar to that of the CBED movement. Credit unions were founded with the express intent of furthering the economic interests of the working class through the mobilization of member savings for member use. The process, according to Coady, was one of economic self-help and mutual aid through adult education which could best be achieved through cooperation. Similar goals have been expressed in the popular CBED literature outlined earlier, with its emphasis on broadly defined socio-economic development, community control and its origins in community development. Ultimately, the similarity between the two can be expressed as their combined interest in both social and economic objectives, implemented through a grass roots, self-help strategy. However, while the credit union philosophy of the 1930s was consistent with that of CBED, it is less so today. This is a constraint to credit union participation to CBED which will be considered in the following section. However, a revival in traditional credit union philosophy which is supportive of CBED is occurring in some quarters. This is demonstrated by some innovative credit union initiatives in B.C. Which are documented in Chapter 5.

In fact, credit union philosophy appears to have subtly shifted from Coady's vision of an all embracing cooperative commonwealth to one of a more practical nature, that is financial service. The range of services available has steadily expanded as has its quality. This strategy has produced some benefits for the credit union in that members and non-members perceive credit unions as friendlier places to bank than the Big Five. (Credit Union Way 1984) Of the few small businesses that currently use a credit union, a 1985 CFIB survey shows that credit unions are more successful than banks in meeting their needs. As shown in Table 9, in the section of the survey entitled "details of bank service", respondents gave credit unions the highest ratings on such questions as - knowledge of local market, understanding of the business sector, and having enough time for your business. Thus, the reputation of the credit union among the small business sector would seem to provide a basis for further credit union activity in this area.

TABLE 9

CFIB Survey Results by Financial Institution
(percent)

Details of Bank Service	National Results	Credit Unions	Trust Companies	Royal Bank
Know Local Market	52.8	69.5	50.3	53.6
Understands Business Sector	53.4	68.0	51.3	55.6
Enough Time for Your Business	73.5	78.9	75.9	76.0
High Enough Lending Limit	55.6	67.7	40.3	56.8

Source: CFIB. 1985 Banking Survey. Toronto: 1985.

As one manifestation of the 'service' philosophy, credit unions have been able to expand the range of services offered through an intensive search for innovative solutions to member needs. A long list of financial products were first introduced by credit unions and then copied by the financial industry, including automated teller machines, daily interest savings accounts, weekly payment mortgage, recognition of 100 percent of the women's income in family loans, open mortgages with early non-penalty pre-payment and so on. Clearly, credit unions have frequently been at the forefront of change and exhibit a propensity to innovate, at least at the level of day to day operations.

As cooperative financial institutions, credit unions still officially subscribe to certain basic cooperative principles laid down by the Rochdale Pioneers in the mid-nineteenth century: democratic control, voluntary and open membership, limited interest on investment shares, patronage refunds, continuous education, cash trading, and cooperation among cooperatives. In spite of the fact that credit unions have in practise strayed from adherence to all these principles, such as cash trading and continuous education, the democratic structure remains intact. Credit union members control the board of directors and therefore credit union policy. If the needs of the members are consistent with those of CBED, and members demonstrate the will to participate in CBED, then it is possible for the credit union to accommodate CBED.

Furthermore, community members have the opportunity to initiate a credit union in their locality. While this was once a vital grass-roots strategy for achieving control of community capital, one consistent with the philosophy of CBED, very few credit unions have been formed in recent years due to high start-up costs, and competition among financial institutions. In the last 10 to 12 years, sixteen credit unions were formed in B.C. but only one or two have survived. (G. Rubio, B.C. Central Credit Union, personal communication, April 2, 1987) Thus, with these obstacles to creating new credit unions in mind, it is more likely that existing credit unions will be the primary source of support for CBED. However, the value of specialized community development credit unions should not be under-emphasized.

While credit unions are criticised as being unstable for their reliance on one local market area, there are also positive aspects of this parochialism such as: knowledge of the local economy and the credit union's direct relationship to the health of the local economy. Credit unions know the local economy and with their autonomous institutional structure, credit unions are in a good position to carry out programs to achieve local objectives. Community based economic development requires that each community understand its local economy and initiate action based on this knowledge. A small, locally controlled credit union has sufficient flexibility to accommodate various strategies.

Credit union managers and boards of directors are perceived by business people to have a deeper understanding of the local area than officials of other financial institutions as reported in Table 9. There are several possible reasons for this. Firstly, the board is elected from within the common bond of association, be that geographic or otherwise. Secondly, the offices of the credit union are located within the bond of association so that decision-making is carried out locally. Thirdly, the manager and the staff of credit unions are not required to move throughout the system as frequently as are their counterparts in banks so that they are more likely to be personally acquainted with their members as attested by the credit union study which showed that credit unions are perceived as more people oriented when compared with banks and trust companies. (Credit Union Way 1984) However, it is not known if, or to what extent, these characteristics of credit unions actually influence their behaviour in a manner favourable to CBED. Furthermore, a restriction within the Credit Union Act is intended to prevent credit unions from carrying on business outside the province, but this provision is not strictly enforced. (Credit Union Act, RS Chap 79, Part 1, Section 6 1985)

Even more than a knowledge of the local economy, the credit union might be expected to have a large stake in the overall health of the local economy. Possessing a membership drawn only from a specific region or group of people means that the credit union, like other local institutions, has a stake in the continued economic health of the area. If a credit union can influence the local economy through its policies and lending decisions then doing so is of mutual interest for both the community and the credit union. A stable, healthy local economy is likely to enhance the security of the credit union's personal and mortgage loan portfolio for instance. By contributing to community based economic development through its lending decisions, the credit union may foster economic diversification in the local economy. As such, the 'extreme parochialism' (Thompson 1978) of the credit union may serve as an impetus and rationale for its involvement in community based economic development. This is not to say that the local bank branch does not operate with the same intentions, but rather that the credit union depends on a viable local community for its continued existence, whereas a bank is not ultimately so dependent. This suggests that the motivation to strengthen the local economy is perhaps stronger on the part of the local credit union.

Constraints to Credit Union Participation in CBED

Despite the existence of several attributes which make credit unions likely candidates for CBED, to date they have not acted to become involved in CBED to any great extent. CBED groups rarely use the credit union as a source of financing, much less often than banks according to the Highland Resources (1983) survey results in Table 2. A consideration of the constraints to credit union participation will contribute to an understanding of this situation. An account of a recent experience at a B.C. Central Credit Union annual general meeting reveals some of the problems associated with CBED from a credit union perspective. At this meeting local credit unions defeated a motion proposing that a research program be carried out by

B.C. Central on the subject of credit union participation in CBED. Its defeat was attributed not to the concept of CBED in general, but rather, to the notion of centralized action. Local credit unions expressed the view that CBED is by definition a local phenomenon, which should be approached by each credit union, in its own way.

There are several good reasons beyond this territorial one, why credit unions have not expanded out of their traditional spheres of activity into CBED. The first has to do with the question of risk. Can a small, non-profit credit union afford to assume the added risk associated with lending for CBED? These enterprises are often marginal small businesses employing the hard to employ and located in depressed rural areas or inner city neighbourhoods which are characteristically high risk lending propositions from the point of view of the lender. Combine this added risk dimension of CBED with the fact that credit unions are traditionally highly conservative financial institutions and the prospects for credit union financial participation in CBED are limited. This is true in the absence of a mechanism to reduce level of risk in lending to CBED.

David Ross addressed the question of risk in lending to CBED organizations from the credit union's perspective and has proposed a useful way of distinguishing CBED on the basis of three risk categories:[1] 1) those CBED enterprises with normal

---

[1]David Ross, Presentation to Vancouver City Savings Credit Union Economic Conference, Annual General Meeting, Vancouver, April 5, 1986.

small business risk characteristics; 2) those which might produce a lower rate of return but which are still feasible from the point of view of risk; and 3) those which are non-profit and require an outright donation of some kind. If credit unions were to assume added risk in financing CBED, should there be compensation in the form of higher reward which would secure member deposits. This could be accomplished by taking an equity position in CBED enterprises such that the credit union is compensated for its risk-taking through a return on equity. Other methods of reducing risk are through government loan guarantee programs and providing management advice with each loan. Further research regarding innovative ways to reduce risk in lending for CBED is required.

The second fundamental constraint to credit union involvement in CBED is posed by a lack of philosophical commitment to credit union ideals or a sense of community obligation on the part of todays credit union members which may prevent credit unions from taking an active role in CBED. According to Melnyk's (1985) typology of cooperatives in Canada, credit unions can be classified as liberal democratic co-ops in the 'systems' phase of development. In this phase, the missionary zeal of the 'utopian' and 'movement' phases is replaced with a more business-like approach. Concommitent with a business-like approach is an unfortunate change in the nature of commitment from an ideological commitment, which focuses on a vision for the future, to a utilitarian one, resulting from the practical benefits of credit union membership. These are

Kanter's (1972) terms to explain the nature of relationship between people and organizations. Thus, the will to participate in CBED is less likely to develop in such circumstances.

Changing member commitment can be illustrated by some figures from a recent survey which found that only 30 percent of credit union members surveyed had ever attended an annual general meeting. Moreover, when a sample of both members and non-members were asked to rank the attributes of a financial institution, factors such as convenience, confidentiality, and security ranked above the importance of locally made policies, community involvement and customer influence on management. (Credit Union Way January 1984) In fact, one B.C. credit union manager estimates that only 10 percent or less of their members join for ideological reasons: "The whole philosophy is basically transparent for lots of members." (Richard Wilson, personal communication, Richmond Savings Credit Union, October 17, 1986)

Part of the hesitation in expanding credit union activities to include CBED is due to the fact that credit unions are regional lending institutions and are perceived to be less stable than national institutions because of the former's dependence on the local resource-based economy. In B.C. where nearly one in five credit unions operates under the supervision of the Credit Union Deposit Insurance Corporation, this is a significant constraint. This ratio represents an unusually high proportion of credit unions under supervision compared to previous periods but it is expected that the number peaked in 1986 and will begin to decline shortly. (Superintendent of

Credit Unions, Ministry of Consumer and Corporate Affairs, Conversation April 10, 1987.) The branch banking system on the other hand, is able to draw on deposits from regions across the country and is not reliant on one or two sectors of the economy.

The subject of the viability of regional banking has received much attention of late with the collapse of three western Canada regional banks. It is argued that the demise of the Northland and Canadian Commercial Banks prove that regional banking is not viable and that confidence in regional banking has been undermined. (Alberta Report, October 14, 1985) Contrary opinion asserts that the Northland and Canadian Commercial Banks were badly managed and thus their failure does not necessarily reflect negatively on the viability of regional banking. (Richard Allen, personal communication, B.C. Central Credit Union, October 20, 1986; Estey Commission Report 1986) To the contrary, the longevity and growth of the credit union system to date is proof that regional banking can work.

Previous restrictions on lending practises may be another contributing factor to credit union inertia in making CBED related business loans. Before 1971 credit unions in B.C. were restricted from making business loans under the terms of the Credit Union Act. Fortunately new credit union legislation introduced in 1971 allows credit unions freedom in granting loans up to a specified amount. Beyond that amount, loans must be approved by the Credit Union Deposit Insurance Corporation (CUDIC) the industry's insuring and regulatory agency.

Owing in part to their reliance on personal and mortgage loans, credit union managers and loans officers often do not have the expertise required to evaluate CBED proposals. In addition, because many managers receive their training in a chartered bank before moving to the credit union, they lack the philosophical grounding important for evaluating projects with both economic and social perspectives. Aside from credit union staff, the board is often criticized for a lack of financial expertise necessary to evaluate business proposals arising through CBED organizations. Volunteer boards should not be dismissed altogether because of a lack of technical expertise; rather their knowledge of the credit worthiness of individual members can contribute a great deal to a loan assessment. In recognition of the training requirements of staff and board members, the Credit Union Deposit Insurance Corp. and B.C. Central Credit Union have developed training programs and established small business lending policies which might remove some of the barriers to business lending. However, there are no CBED training programs in place.

Summary

Based on this consideration of the credit union's suitability for participating in CBED, it appears that there are several problem areas which tend to limit credit union participation. Firstly, the prospects for credit union participation in CBED are limited by a lack of will. While early credit union philosophy was consistent with CBED, todays credit union members are not committed to the credit union for philosophical reasons and do not expect the credit union to use their deposits to develop the local economy. Consequently, the likelihood that the credit union will act altruistically to participate in CBED is limited. If on the other hand, it can be demonstrated that there is benefit to be gained by credit union members through community based economic development, the chances are increased. This may be achieved by educating credit union members and directors as to the nature and potential benefits which may result from CBED. The democratic nature of the credit union is what makes it unique in relation to other financial institutions and therefore attractive to community based economic development groups. A cooperative decision making framework means the credit union is subject to community control and thus able to respond to the needs of the local community. Finally, the mutual benefit gained from a strong local economy further strengthens the link between credit unions and CBED.

Financial participation by credit unions in CBED is further limited by high levels of risk associated with lending to CBED. There are a number of ways in which risk can be reduced for credit unions lending to CBED groups; through government support such as loan guarantees and insurance, innovative financial mechanisms, by taking an equity position in CBED enterprises, and by providing management advice in conjunction with loans. Each of these either reduces the risk element of the loan or compensates the credit union for its added risk. Therefore, the constraints posed by excess risk are not insurmountable; indeed further investigation of alternative mechanisms for reducing risk should be undertaken.

The credit union can perform other roles in support of CBED, such as that of a facilitator or catalyst for CBED in the community, providing management advice to CBED organizations, and by making credit union facilities available for CBED activities. To date, the greatest indicator of the credit union's suitability to participate in CBED is the fact that several credit unions are currently doing so; this is the subject of Chapter 5.

CHAPTER 5

A REVIEW OF CREDIT UNION EXPERIENCE IN COMMUNITY BASED ECONOMIC DEVELOPMENT

Introduction

The previous chapter referred to the fact that several credit unions in British Columbia and in other jurisdictions across the country and indeed around the world have taken considerable action in the name of community based economic development. The purpose of this chapter is to provide some empirical support for the argument that credit unions should participate in community based economic development by presenting an illustrative sampling of the nature of credit union participation in CBED both in British Columbia and elsewhere. Due to geographical considerations, the focus of this chapter will be on two British Columbia credit unions which are currently engaged in CBED; Nanaimo District Savings Credit Union and Vancouver City Savings Credit Union. However, a brief description of credit union initiatives operating in Quebec, the United States and Spain is included in Appendix A to show the breadth of credit union activity in support of CBED.

The first British Columbia case is Nanaimo District Savings Credit Union, a medium-sized credit union with 18,000 members located in Nanaimo on Vancouver Island. While traditionally active in community affairs, Nanaimo District Savings Credit Union is currently taking part in two CBED initiatives, the

Community Ventures Account and Colville Investments, both of which will be examined in some detail later in the chapter. Vancouver City Savings Credit Union (VanCity) on the other hand, is a large urban based credit union with 21 branches across the Lower Mainland. The programs of interest at VanCity are the Seed Capital Project and Ethical Growth Fund, both introduced within the last two years.

The rationale for choosing these credit unions is twofold. Firstly, aside from Community Congress for Economic Change or CCEC, they are the only two B.C. credit unions with specialized programs in place for community based economic development.[1] That is not to say however, that other credit unions are not pursuing the same or similar objectives in the course of their everyday operations without using the term CBED. Secondly, Nanaimo and VanCity both draw their membership from a geographic common bond, the most prevalent common bond in B.C. and in most provinces (at least in terms of membership.) The difference in size between the two credit unions allows for an appreciation of the scale of activity possible in each case. The purpose of this chapter is to determine if the examples described herein indicate that existing credit unions are capable of becoming

---

[1]CCEC is a small Vancouver credit union whose objectives give priority to the financial needs of cooperative organizations such as housing coops, consumer coops and other non-profit organizations. Although CCEC is a good example of a credit union following the principles of CBED, it has not been chosen as a case for detailed study because it does not represent a likely model for existing credit unions. Rather it would require that a new credit union be formed, and a corresponding holistic commitment to CBED.

involved in CBED. Therefore, it is useful to concentrate on the models suited to the untapped potential of existing credit unions, as typified by Nanaimo and VanCity credit unions.

Methodology

The methodology adopted here involves examining specific programs or "institutional adjustments" employed by the two credit unions in support of CBED. These will be analysed against a framework for the evaluation of alternative financial institutions derived from Fisher's (1983) normative framework. This is an institutional perspective based on the notion that alternative specifications of property rights affect the nature of the outcomes produced by economic entities. The institutionalist approach is particularly useful when applied to the credit union since it makes explicit the "powers, responsibilities, rights and liabilities of those affected by or involved in the productive process." (Fisher 1983) Orthodox economic assessment techniques are inappropriate because the social benefits to individuals and communities are difficult to quantify. As such, the outcomes as well as the institutional processes themselves of the CBED programs implemented by Nanaimo and VanCity will be assessed against a set of social value criteria developed in the next section. Since the programs in question have only recently been implemented it is too early to perform a comprehensive evaluation of these initiatives. Instead the purpose of this chapter is to document the initiatives, comment briefly on their ability to satisfy the criteria, and make some observations regarding the strategies followed, relationships with other community organizations, and institutional arrangements.

Two sources were utilized for this chapter: personal interviews and correspondence with staff and board members of both credit unions, listed in Appendix B; and published information contained in annual reports, internal documents, newsletters, newspapers and magazines.

The four broad social value criteria postulated by Fisher are as follows:

1) individual growth and development
2) equality and cooperation in social relationships
3) social and biological continuity
4) expansion of knowledge and free inquiry

An appropriate set of criteria for evaluating a credit union involved in CBED will now be developed from the above general social value criteria. Derived from the requirement of individual growth and development, the first criterion is a test of the program's ability to meet economic objectives such as increasing the amount of wealth or economic activity in the community through job creation and economic diversification. This must be done in a manner that ensures the credit union's continued economic viability. The credit union will remain useful as an actor in the community development process only if it is able to remain solvent. This criterion may be compared to that of efficiency in conventional economic analysis where the aim is to produce the maximum value of output using cost minimizing techniques of production and considering market demand. The number of jobs created and the dollar value of increased economic activity are used to test for this criterion.

The second criterion implies that equity should be a consideration in the allocation of credit union investments such that disparities in income and wealth are reduced among individuals and among regions. If job creation is the tool or strategy employed then it should be directed to those most in need. Furthermore, development should create good jobs; all jobs are not equally satisfactory. Clearly, the quality of job, which depends of the level of pay, skills required, length of employment as well as the actual nature of the job, have a bearing on its distributive effects.

The principle of cooperation inherent in the second social value criterion and which Fisher applies to community reinvestment statutes and public banks in the United States, is implicit in the operations of a credit union. Credit unions are by definition cooperative institutions owned and controlled by their membership. Therefore, the extent to which the cooperative model is promoted as a form of business enterprise by the credit unions through these initiatives will be used to measure this aspect of equity.

The third criterion holds that the locus of credit union activity in CBED should be the local community. The principle impetus for CBED in many communities is loss of livelihood and a determination to remain in the community. Therefore, community economic development should aim to replace lost jobs. A broader interpretation of the word community could also be applied to the credit union's community development activities. It would attempt to determine if the programs or policies directed at CBED help to build a sense of self reliance among community residents in the economic sphere. Assessing this type of effect is difficult as the CDC literature points out (Cummings and Glaser 1983; Mier and Wiewel 1983), nevertheless, I will attempt to comment on this criterion in each case.

Finally, institutional arrangements that provide greater exposure to financial and other information useful in the community economic development process are preferred over those that do not. Educating community members and building local capacity to engage in community based economic development are potentially useful roles for a credit union to assume.

In summary, four criteria will be considered in assessing the programs instituted by Nanaimo and Vancouver credit unions. Briefly, they are considerations of 1) efficiency, 2) equity and cooperation, 3) community, and 4) education. The criteria represent a broad perspective on the role of a community economic development financial institution, but they are not internally consistent criteria. It is likely that the objective of efficiency will conflict with those of equity and community. This does not limit their usefulness, but rather helps to clarify the trade-offs inherent in any undertaking with multiple objectives. The following section describes the particular programs undertaken by each credit union, then seeks to assess each program in light of its own objectives and the criteria set out above.

Assessment of Community Based Economic Development Initiatives

Nanaimo District Savings Credit Union

Nanaimo District Savings Credit Union has been active in the community since its formation in 1946. Past involvement included leasing furniture and equipment to the local community college and providing premises for the consumer cooperative. In fact, two branches of the credit union are situated on the same premises as Hub Co-op. The credit union appears to be well integrated into the local community, as evident by the monthly meeting of the credit union, Hub Co-op, Creduco Services (the insurance arm of the credit union) and Greater Nanaimo Housing Corporation, a wholly owned subsidiary of the credit union and Hub Co-op. Two "institutional adjustments" - the Community Ventures Account (CVA) and its relationship with Colville Investments - are further evidence of this longstanding commitment, in spite of the fact that the credit union has been under supervision by the CUDIC for several years. Faced with dim economic prospects since the early 1980s the credit union decided to take some decisive action in support of community based economic development together with other community groups. The local economy is dependent on the forestry industry which has suffered a great loss in employment in the last seven years. The current unemployment rate on Vancouver Island remains high at 14.7 percent in January 1987.

Community Ventures Account

The Community Ventures Account is a revolving loan fund set up at the credit union, which was sponsored by Malaspina College and another community organization, to reduce youth employment and to contribute to the economic health of the local area. The account is funded by credit union members who can choose to accept a reduction in the rate of interest paid on their deposits in savings accounts and term investments. The remainder is then assigned to the Community Ventures Account which is administered by a non-profit society called the Nanaimo Community Ventures Society. It is comprised of representatives of the Kiwanis Club, Malaspina College and the credit union. The College and Kiwanis Club are responsible for the provision of business advisory support to individual applicants and the credit union looks after the accounting of the fund. Members of all three organizations sit on the board which makes lending decisions. Students (or others) aged 15 to 24 are eligible for assistance from the fund, although exceptions are possible for older students.

The CVA began accepting deposits in September 1984; the first loans were to be made in the spring of 1986. However, by the end of February 1987 only $3000.00 had been contributed to the CVA, primarily from the Malaspina Student Association, its faculty association and various community organizations. With this amount the CVA has not been able to finance any projects although there are plans to fund one or two student projects in the summer of 1987. The general public has not been very responsive to fund raising efforts on behalf of the Community Ventures Account. Informal attempts by CVA staff to determine the reason for an apparent lack of community support found two general reactions. Firstly, some residents expressed the view that young people do not need additional help since they are already the target of many government programs. The second reason put forward is the belief that the economic situation will improve shortly, so these measures are unnecessary. The society is currently investigating some alternative strategies to raise money for the Community Ventures Account.

The manner in which Nanaimo Credit Union has chosen to structure the Community Ventures Account does not pose a threat to the financial stability of the credit union or its depositers (members). Rather it is a very conservative, tentative initiative in this respect. Money is raised from credit union members voluntarily for the purpose of developing the local economy, rather than from the credit union's loan portfolio or retained earnings. This contribution is similar to a charitable donation, although it does not receive the favorable tax treatment of a donation which was considered infeasible at the time the Account was created. The option also exists for members to simply make a straightforward donation to the CVA.

The fund's objectives are consistent with the equity criterion since it aims to reduce youth unemployment in the region. This group is disadvantaged in two ways. First, in

Nanaimo as elsewhere, unemployment falls disproportionately on the shoulders of those aged 15 to 24 years. Secondly, young people borrowing for business purposes experience even greater difficulty than adults in gaining access to debt financing since their personal equity levels are low. So, in the sense that youth employment in the region is increased, the program will contribute to a more equitable distribution of wealth. There is no explicit goal to promote cooperative enterprises.

CVA funds are restricted to youth businesses in the Nanaimo Regional District, where they would contribute to the region's employment base, at least temporarily. If one were to take the meaning of the term community further so as to mean a sense of "commonality in action," the analysis becomes more difficult. The Community Ventures Account is an extremely small scale, low visibility project which has not, as of yet, had any appreciable impact on the community or its morale.

Instilling young people with the "entrepreneurial spirit" is an implicit objective of the CVA, somewhat consistent with the educational criterion set out above. Experience gained from a summer business venture may very well prove to be a long term investment in human resources. It does not fulfill the broader conception of capacity building which is concerned with a collective rather than individual education in economic decision-making, beyond that of small business. However the lack of funds and corresponding inability to make any loans so far, make it difficult to guage the impact of the CVA on the community.

Summary - Community Ventures Account

There are several useful insights to be gained from Nanaimo's brief experience with the Community Ventures Account. Firstly, it is an extremely small scale operation whose impacts on the community are not likely to be large, even if or when loans are made. Many community based economic development efforts are similar in this respect; they are small initiatives tackling extremely large, longstanding and complex economic and social problems. Furthermore, in the case of the Community Ventures Account, the question begging to be asked is, can the existing method of raising money sustain the experiment? Would some proven 'successes' increase the rate of contributions? In terms of institutional structure, partnering with other community groups would appear to be a good way of tapping additional expertise and eliciting broader community support for the project. Small credit unions like Nanaimo are not likely to have the staff, in terms of time or expertise, to carry out all of the tasks associated with community based economic development. The Community Ventures Account also illustrates the common tendency of CBED to target groups which traditionally have difficulty in entering the labour force, in this case youth.

Colville Investments Corporation (CIC)

Nanaimo District Savings Credit Union works on an informal basis with Colville Investments, a subsidiary of a local employment society, to lend to small business to stimulate local economic development. Colville Investments is an investment fund which seeks to encourage private sector employment through financial and technical assistance, but on a much larger scale than the Community Ventures Account. The credit union's involvement is indirect; it considers the recommendations made by Colville on behalf of loan applicants in its loan approval process. In addition, Colville will sometimes guarantee a credit union loan to a prospective small business, enabling the credit union to make a loan which otherwise might not have been feasible from the credit union's perspective. The relationship works the other way around as well; the credit union will direct a potential business client to Colville for advice and counselling.

Colville Investments was established in 1980 as a subsidiary of Nanaimo Community Employment Advisory Society (NCEAS). The latter's objectives include "development of a strategy which would result in a more stable, diversified local economy providing increased employment opportunities." (NCEAS 1986) NCEAS is a community development corporation largely funded by the Employment and Immigration Commission through LEDA, LEAD and now the Community Futures Program. The NCEAS has two arms, one profit making, the other non-profit. Its non-profit employment development activities generally focus on environmental issues, such as the Nanaimo River Salmonid Enhancement Program. Colville is a profit seeking organization, but any profits accruing to Colville as a result of its investments must be re-invested to further its objectives.

Colville is governed by an eight member board of directors. Since there is no formal relationship between the credit union and Colville, there are no credit union staff members on the board.

Some general criteria define eligibility requirements for assistance, although these are not inflexible. Firstly, the enterprise receiving assistance must be located within Nanaimo Regional District and secondly, the proposed project must demonstrate potential for commercial viability and job creation. If the proposal is for financial assistance of some kind, a number of additional criteria must be met, the most significant of these being that the applicant must have been rejected by conventional lenders. The remainder are typical investment criteria. (NCEAS 1986) The types of assistance provided by CIC include counselling, market analysis, referral to other local resources, assistance with preparation of financial statements, feasibility studies, and loan proposals, capital on an equity or debt basis, and follow up counselling such as accounting and marketing.

What has Colville been able to accomplish with the credit union's assistance over the last six years in terms of new businesses and employment generation? According to the NCEAS annual report, as of March 31, 1985, CIC had helped to create 342 full and part-time jobs through investments of $717,000 since 1980. In 1984-85 most of the jobs created were in the service sector and 14 out of 22 firms that received loan funds were existing businesses. The total cost per job (including monies levered in from other sources such as the credit union) was $11,650.00. No figures are available to show the credit union's direct involvement with CIC. If outside sources are not included, the total cost per job was only $3058.00. This latter figure represents government monies allocated to CIC for the purpose of investment and administration costs.

The direct benefits which accrued to the local community from 1984-1985 investment of $298,900 were considerable, when money levered in from other sources totalling $1,177,000 is included. Approximately $2.7 million in local expenditures are estimated to have resulted from this investment according to CIC, an estimate comprised of local wages, materials, and overhead costs associated with running a business, but excludes the cost of imported materials.[1] From a business or efficiency perspective, the organization has been quite successful in its investments, achieving a debt-loss ratio lower than the industry norm. This may well be attributed to the level and quality of technical assistance provided by Colville. (Alberni-Clayquot Development Society 1984)

The strategy whereby the credit union coordinates its resources with those of a community group is a good one. From the credit union's perspective, the risk normally associated with small business lending is reduced by the assistance provided by Colville to the entrepreneur and in some cases, a

---

[1]The figure of $2.7 million is derived from the 1984-85 NCEAS annual report and is based on projected first year revenues and expenses of firms initiated through CIC activities.

loan guarantee. Also, credit union staff time devoted to business loans is substantially reduced. Given the interest demonstrated by Nanaimo and District Savings Credit Union in CBED, it would seem that there is scope for an expanded working relationship between Colville and the credit union in support of CBED.

Colville has been quite successful in meeting its own objectives concerning job creation in the private sector according to the figures presented earlier. However, the proportion of jobs created in the service sector is of some concern since these tend to be low wage, part-time or temporary in nature. CIC facilitates the formation and expansion of what may be termed marginal businesses. This is due to the requirement that financial assistance be limited to those rejected by conventional financial institutions, consistent with the equity criterion. It is likely based on the assumption that small businesses experience difficulty in gaining access to financing as illustrated in Chapter 3. Furthermore, in restricting loans to those who would not be served otherwise, the society's policies are contributing to a more equitable distribution of income in the region through expanded employment opportunities.

The locus of CIC activities is the Nanaimo Regional District, consistent with the third criterion to preserve the community. Colville's record in educating the community towards self-reliance in economic matters is unclear, however the solutions it promotes are highly individualistic rather than community-oriented.

Summary - Colville Investments Corporation

Nanaimo District Savings Credit Union's involvement with CIC provides an example of indirect credit union participation in CBED. Colville is the lead agency in this case; the credit union plays a secondary or support role. A combination of federal funds through Community Futures, credit union loans and community group support has contributed to expanding the volume of economic activity in the Nanaimo area potentially on a much larger scale than the credit union (or community group) could achieve separately. The pairing of public investment through CIC and private investment through Nanaimo Credit Union would appear to be a good model for other credit unions to follow.

The investment strategy followed by CIC reflects the prevailing ethos of "entrepreneurship" more so than one of community-based economic development per se. As mentioned previously, CIC supports businesses which would not receive financing in the conventional sense, but when provided with business counselling to supplement the financing can achieve positive results. Emphasis is on the individual business person - to this point there have been no cooperatives or community type businesses aided by CIC. This might be attributed to the fact that cooperative businesses require a different sort of counselling expertise than traditional businesses. Perhaps this might be an opportunity for the credit union to play a more active role in association with CIC.

Vancouver City Savings Credit Union

Vancouver City Savings Credit Union has also directed some of its recent efforts towards community based economic development reflecting a shift in credit union policy beginning in 1983. In 1983 and in subsequent board elections, the "Action Slate" comprised of team of activists including some NDP MLAs, assumed control of VanCity's board of directors. They contended that the credit union was straying from its original mandate especially in making loans for speculative real estate ventures outside the province. Loans were subsequently restricted to the Vancouver area. Philosophical issues aside, the move was also a pragmatic one since the credit union was losing money in its activities elsewhere; three times as many problem loans originated outside the GVRD than within GVRD boundaries.

Until 1984 VanCity's asset base reflected that of the credit union system as a whole - heavily biased towards residential and to some extent commercial mortgages. In 1986, almost 90 percent of VanCity's lending was secured by mortgages, both residential and commercial. Personal loans account for significant portion of assets as well, just less than 10 percent. Since 1984 however, VanCity has slowly expanded its business lending, but it remains a fraction of other lending, about 2 percent. (Vancouver City Savings Credit Union 1987)

Vancouver City Savings Credit Union has a reputation as a highly innovative and trend setting credit union. Numerous now commonplace financial services were first offered by VanCity, such as the first daily interest savings account in Canada. At the same time, (or perhaps because of this) it is the largest credit union in Canada with 21 branches across the Lower Mainland, and almost one quarter of the entire asset base of the credit union system in B.C. Furthermore, VanCity was recently named as one of the top one hundred employers in Canada for 'spirit' by the Financial Post. (Innes, Perry and Lyons 1986) It received 'very good' ratings according to the following criteria: benefits, job security, atmosphere, job satisfaction, communications and personal development.

VanCity also garnered alot of attention with its unsuccessful attempt to purchase the assets of the Bank of British Columbia. In a credit union newsletter, the rationale behind the move was explained.

> Our concern was that the province and community we serve would lose a significant provincially-based financial institution. We felt that keeping the bank under local decision making authority was a good thing for all of us here in B.C. We were also concerned about a potential loss of jobs. (VanCity 1986)

Since the attempted Bank of British Columbia purchase VanCity has capitalised on the "local bank for local people" theme in its advertising using the slogan "Where money works for people in B.C."

However, VanCity's "progressive" actions have been viewed with dismay by some credit unions. They fear that their goals do not coincide with those of VanCity. Since VanCity dominates the B.C. credit union system in terms of sheer size they worry that any false move on VanCity's part could prove damaging for the whole movement.

Seed Capital Project

In contrast to the Nanaimo credit union's joint participation in CBED with other community groups, VanCity pursues these goals independently. It initiated the Seed Capital Project on a pilot basis in January 1986, making $500,000 available in the first year for loans to small businesses meeting certain criteria. The credit union's stated objectives are to: stimulate the local economy, encourage employment generation, and encourage new businesses that would otherwise not get a start. A fourth is tentatively included, that being support for three cooperative enterprises. (David Cox, VanCity, personal communication, May 7, 1986) Each loan is capped at $150,000 so that VanCity can reach those small businesses not well served by other institutions or venture capitalists. Its target group differs from that of the traditional financial institutions in that loans are made to persons without the requisite personal equity, but who have completed a new business program at a community college or university. In doing so VanCity is essentially recognizing an investment in human resources as equity. Loans are made to businesses located in the GVRD and which are engaged in export or import replacement. Furthermore, one job must be created for each $20,000 to $30,000 invested by VanCity. The program is implemented in house by a former venture capitalist, who plays a key role in the loan approval process and in providing management advice to the applicants. A committee of the board of directors approves each loan.

As of December 1986 eight business projects had been financed under the program, creating a total of 21 largely full-time jobs at approximately $10,000 to 15,000 per job. (David Cox, VanCity, personal communication, March 19, 1987) An additional $500,000 is allocated for the second year of the Seed Capital Project. Although the intent of the program is to provide financial assistance, several applicants received a considerable amount of business counselling even though the decision was made not to fund these particular proposals. Most of the firms financed are traditional small businesses, but one of the initiatives funded is particularly innovative. It involves construction of street huts for handicapped coffee vendors, under a joint arrangement with the Federal Business Development Bank (FBDB).

From a financial perspective, VanCity's loans have proved to be secure, at least at this early date. There have been no loan losses in the first year of the project's operation although two of the eight are experiencing some difficulty. The prospect of losing some of the $500,000 allocated for the first year of the program is a real one. But with the advantage of large size, VanCity feels that the risk is not a critical one for the finacial stability of the credit union.

The primary role of education in the Seed Capital Program is instructive. Education is used as a proxy for an actual equity investment in the company. This reflects the emphasis placed on human resources in the local development literature. Furthermore, this mechanism substantially increases the access of Seed Capital financing to those without the financial resources to put up some personal equity, meeting the equity criterion. However, limiting applicants to graduates of enterprise education programs has proven to be too restrictive. Measures are being taken to investigate alternatives.

Another promising feature of the Seed Capital Project is its goal of funding three worker cooperatives the first year. However, although several queries were made regarding worker cooperatives, none have been funded. Again the tendency for CBED to be reduced to purely small business development is evident, especially where no government funds are involved. The possibility of the provincial government introducing a loan guarantee fund for credit union programs of this nature was raised in the legislature recently. While the status of this proposal in unclear, past experience with loan guarantee programs, especially the Small Business Loans Act (SBLA) reviewed in Chapter 3 reveal some potential problems with this approach.

VanCity's common bond encompasses the entire Lower Mainland from the Sunshine Coast to Hope. Although Seed Capital monies are restricted to businesses in the Lower Mainland, it is not likely that an initiative of this magnitude will be effective in building local capacity to develop. Residents of such a large area will not likely experience an enhanced sense of control over economic matters as a consequence of this project. Rather, an advertising campaign of the kind described above is more likely to foster a sense of local pride.

Summary - Seed Capital Project

VanCity's Seed Capital Project illustrates the advantages of large size in implementing an innovative community based economic development program. It is able to apply a substantial amount of money from retained earnings to the program, however this sum represents only a fraction of one percent of the credit union's total loan portfolio in 1986. Unfortunately there are very few large credit unions in Canada with the potential to carry out a program of this magnitude. What is clear from this project, as from the Colville experience, is the critical importance of management advice in facilitating marginal businesses. The Seed Capital Project Manager even asserts that his role as an advisor is as important to the success of a business as that of the owner. While there was some consideration given to the notion of a business advisory group at the outset, VanCity chose to pursue an independent strategy with the Seed Capital Project.

Ethical Growth Fund

VanCity's Ethical Growth Fund is included in this section with some qualifications. It is not an illustration of community based economic development in the same manner as the previous examples. Rather, it can better be characterized as another way in which social objectives are applied to economic decision-making in a credit union or as the "intersection of idealism and shrewd investing." (Equity, October 1986) Nevertheless, the Ethical Growth Fund is relevant to this discussion because it has a number of interesting implications for CBED and can in fact be linked with the VanCity's other program, the Seed Capital Project. The same framework for evaluation will be applied to the Ethical Growth Fund.

The Ethical Growth Fund is a mutual fund which buys stocks in Canadian corporations meeting five ethical criteria. A mutual fund takes money from individual subscriptions into a pool which is then invested in stocks, bonds, or mortgages by professional money managers. The current cumulative worth of those investments is expressed as a "unit" value; the investor purchases x amount of units. According to VanCity, the five ethical criteria are commonly held ethical standards of Canadians. Investments are limited to:

* Companies with a registered head office in Canada and whose equities are publicly traded on a Canadian stock exchange.
* Companies practising progressive industrial relations with their staff but are not necessarily unionized.
* Companies that conduct business only with countries where racial equality prevails.
* Companies who produce products or services only for civilians.
* Energy companies whose major source of revenue are from non-nuclear energy products.

Corporate activities are monitored through the media, consultations with special interest groups and through holders of the fund at annual meetings. Written submissions are also invited.

The ensuing debate concerning the "success" of the fund focuses on whether economic objectives are sacrificed when subjected to the foregoing ethical constraints. There are two views. The first holds that the Ethical Growth Fund is a solid and sensible investment and that companies which abide by these ethical standards are likely to stay healthy in the long run. The other view assumes that any kind of restriction on investment will necessarily reduce the return on the fund. Whether this is actually the relevant question is debatable. Some people are willing to take a reduced return on an investment of this nature for the satisfaction of knowing that it meets their ethical standards.

What about the ethical criteria themselves? Are they a reasonable representation of Canadian moral standards and if so, are they being adequately met? There are some obvious ommissions. For example, there are no environmental restrictions on the fund as there are in other socially conscious mutual funds. The issue of human rights abuse is another possible criteria for exclusion from the fund. Among the ethical mutual funds available in North America, VanCity's would appear to be less restrictive than most. A sampling of other mutual funds reveals some additional policies: exclusion of companies producing alcohol, tobacco, gambling or gambling products and pornographic material; and one ethical fund favors companies with worker participation. (Pax World Fund Inc., Dreyfus Third

Century Fund, Calvert Social Investment Fund, New Alternatives Fund)

While the Ethical Growth Fund was initially only available to VanCity members in British Columbia, it has recently been offered for sale through other credit unions and investment brokers across Canada. The minimum purchase is $500 in comparison with an industry norm of $1000 and subsequent purchases may be made in amounts of $100 or more. This enables smaller investors to take part, a bow in the direction of increased accessibility and therefore equity.

The Ethical Growth Fund clearly gets top marks as an instrument for educating the public about the possibilities of applying social criteria or ethical standards to what have been previously viewed as purely financial decisions. The fund's overwhelming popularity from the outset however suggests that the public didn't need educating, rather there was a latent demand for such an investment vehicle. This point has not been lost on several investment companies in Canada who have since jumped on the ethical band-wagon. (Summa Fund, Cedar Fund)

Summary - Ethical Growth Fund

What are the implications of the Ethical Growth Fund for community based economic development? In the sense that it is able to raise the general level of awareness regarding the social aspects of economics, an important principle of CBED, the Ethical Growth Fund is significant. The question of the efficacy of locally based strategies in the face of the globalization of the economy is also raised. Is it ultimately possible to restrict capital flows, either on a geographical basis as with CBED, or on some kind of ethical basis as with the Ethical Growth Fund? Capital is extremely mobile among companies and across national boundaries. In fact, in the long run, the whole notion of ethical investing may be little more than "comfortable ethical posturing." (Equity, October 1986)

Mutual funds in general have negative consequences for local development (often small-scale) because of their role in the 'institutionalization' of investment. Mutual fund managers responsible for large sums of money look for opportunities to invest in large blocks, effectively barring small companies from this source of equity capital. Community based economic development is in part an attempt to counteract these tendencies. Does VanCity recognize the contradictory nature of the Seed Capital Project and the Ethical Growth Fund? While their goals do not conflict, the outcomes do. One way of correcting the problem might be to allocate a portion of the Ethical Growth Fund's assets to the Seed Capital fund for the purpose of financing CBED. This strategy was recommended by Dr. Ted Jackson, member of the Canadian Social Investment Study Group. (Globe and Mail, January 2, 1987; Jackson 1984)

Some Concluding Remarks

The Nanaimo and VanCity experience in employing specific "institutional adjustments" in support of community based economic development are instructive in several ways. First of all, their actions in respect of CBED show that there is some interest in CBED among B.C. credit unions. Secondly, the two examples demonstrate some of the preferred strategies, roles and relationships with other community organizations, that may employed by a credit union in support of CBED. With the exception of the Ethical Growth Fund, they follow an enterprise development strategy comprised of financing and management advice directed toward marginal businesses, those with little or no equity and whose owners or employees are traditionally hard to employ. With respect to meeting their own objectives, the results have been mixed. The Community Ventures Account has been extremely slow off the mark and will possibly need some adjustments before any success is achieved. When evaluated against the four criteria of efficiency, equity and cooperation, community, and education, the specific policies of the two credit unions fare quite well. However, it is premature to comment on the impact of these policies on the local economy over the long term since they have only been in place for a short time.

Credit union efforts in support of CBED are highly innovative in that they represent attempts by private community based organizations to deal with socio-economic problems in a manner which relies on local initiative. One way of characterizing the role of the Nanaimo and VanCity initiatives within the credit union system is that of exposing the possibilities of credit union participation in CBED, and as such they may have a significant demonstration effect on other credit unions. Similarly, these examples demonstrate clearly that credit unions must be very careful to pay attention to the 'bottom line'. It is imperative that the financial stability of the credit union is maintained. As such there is a marked tendency for the credit unions to take a conservative approach to the whole question of community based economic development. The magnitude of the initiatives described here is small in relation to credit union assets or loans and in terms of jobs created. For example, it is not likely that an existing credit union would expand its CBED activities to encompass the bulk of the credit union's assets as does CCEC.

The critical role of what is termed management advice in tandem with financial assistance is consistent in each of the credit union strategies outlined above. This function clearly distinguishes these programs from traditional small business loans available from most financial institutions, but are similar to small business development strategies of the Federal Business Development Bank for instance. Furthermore, these credit unions demonstrate the tendency and utility of involving other community organizations in the CBED process. Credit unions are only one among many institutions or organizations which can play a role in CBED.

Typology of Institutional Arrangements

It is useful to summarize the distinguishing features of the different strategies employed by the credit unions reviewed here. The diagram in Figure 4 is a two dimensional representation of the institutional arrangements adopted by the credit unions. The horizontal axis depicts the level of commitment displayed by the credit union in its pursuit of community based economic development. Partial commitment means that only a portion of the credit union's resources are directed toward CBED usually in the form of a program or project. Holistic commitment refers to a credit union such as CCEC in Vancouver whose operations are completely devoted to community based economic development. The vertical axis represents the capacity in which the credit union is acting, either alone or in concert with another community organization. The credit union is classified as the lead agency if it initiated the program in question. Examples of each are placed in the diagram for illustrative purposes.

Figure 4

Institutional Arrangements		
	Holistic Commitment	Partial Commitment
Credit Union Acting Alone	CDCU, CCEC CEE, CLP	Seed Capital Project
Credit Union Acting in Concert: Leading Agency Support Agency		Colville, CVA

All of the B.C. examples presented in this review of credit unions followed what might be called an incremental approach to CBED; partial commitment of their resources and some relationship with another community organization. On the other hand, Community Congress for Economic Change (CCEC), the Caisses D'Entraide Economique (CEE), Caja Laboral Populaire (CLP), and the Community Development Credit Union (CDCU) which are described in Appendix A represent a more holistic commitment to the notion of CBED.

At present, the credit union initiatives reviewed here are in the early stages of development when viewed from a community development perspective, which is necessarily a long term one. Their importance in the local economies in which they are situated has yet to be determined, but they stand out as useful examples of the potential for credit unions to participate in CBED. As existing community based financial institutions, they can potentially serve as a vital element in the community development process. Chapter 6 synthesizes the findings presented here and relates them to the larger question of the relationship between CBED and credit unions.

CHAPTER 6

SUMMARY AND CONCLUSIONS

This chapter consists of four parts. The first reviews and summarizes the findings of the previous five chapters. The second part frames these findings into some specific conclusions regarding the role of the credit union in community based economic development, and discusses some of the larger issues raised by this research. In the third section, some suggestions regarding avenues for further research are made in light of the foregoing findings. Finally, the last section presents a series of proposals addressed to local credit unions, B.C. Central Credit Union, and CBED organizations, to enhance the prospects for credit union participation in CBED.

Summary of Findings

Community based economic development is an increasingly popular response to the fundamental problems facing Canadian resource communities as a consequence of both structural economic change and inadequate government programs to ameliorate longstanding regional disparities and high unemployment rates. Community based economic development is a process of development in a broad socio-economic sense, which is carried out at the local level, using local resources, with some measure of community control. A small business development strategy is frequently used. Because local economies are increasingly integrated into the global economic system, global events do place restrictions on the efficacy of a local development strategy. Nevertheless, theories of local development identify two meaningful sources of community based economic development - human resources and local ownership of productive enterprises. Typically, three of the significant barriers to CBED which operate to inhibit the full utilization of local resources are a lack of: information, financial capital, and an ethos of development called local capacity.

Chapter 3 looked at the experience of CBED organizations in terms of obtaining financing from banks and federal government employment programs. Chartered banks have not generally been receptive to CBED up to this point in time, but do lend to traditional small businesses and provide some management advice of a strictly entreprenuerial nature. Government employment programs are better at removing informational barriers to CBED, but the bureaucratic nature of funding delivery frustrates the local autonomy required by CBED organizations.

Chapter 4 examined the argument that credit unions, as community based financial institutions, possess certain characteristics which make them well-suited to pursue a community based economic development strategy. Several attributes such as a cooperative organizational structure and a local orientation do serve the credit union in good stead for CBED. However, several serious constraints are associated with credit union participation in CBED: firstly, members are not motivated by ideological commitment to CBED principles; and secondly, CBED enterprises are regarded as highly risky ventures which credit unions cannot afford due to their non-profit status. Another constraint is the perceived instability of regional banking. Despite these constraints, some credit unions have demonstrated the will and the ability to participate in CBED.

Chapter 5 documented programs in support of CBED operating at Nanaimo District Savings Credit Union and Vancouver City Savings Credit Union. Notwithstanding the preliminary nature of the research, the two examples were found to contain some useful insights regarding strategy, relationships with other community organizations, and institutional arrangements. These credit unions have tended to view their role primarily as one of financing CBED by creating innovative ways to replace equity. They have also accompanied their loans with management advice of some sort which seems to be an integral component of the lending process. Each initiative fared quite well when tested against four social value criteria designed specifically for the evaluation of a community development financial institution. A typology of the institutional arrangements employed by the credit unions was developed to organize some of the alternative arrangements.

Prospects for Credit Union Participation in CBED

There are several important conclusions which may be drawn from this examination of the basis for credit union participation in community based economic development. These observations are related to the three research questions put forward in Chapter 1.

Firstly, according to the theories of local economic development described in the literature, and the practical experience of CBED organizations with banks and federal CBED programs, there appears to be substantial scope for an alternative financial institution such as the credit union to perform some vital roles in facilitating a process of economic development in the local community. The objectives of CBED are inconsistent with those of traditional financial institutions such as chartered banks, but banks are receptive to some degree, to the financial needs of traditional small businesses, some of which are instigated through an enterprise development strategy of CBED. However, the banks likely will finance only the best loan applicants from the point of view of risk and rate of return.

The importance of federal employment programs as a funding source for CBED organizations suggests that the financial institutions referred to above are not meeting the needs of CBED. The common emphasis placed on employment creation for marginal groups in society such as women and native people is likely responsible for this. While government is better suited than banks to support CBED, funding for permanent job creation through CBED has clearly not been a priority of the federal employment ministry. Thus, the search for alternative means of financing among CBED groups is clearly linked to a lack of commitment on the part of the federal government. This lack of commitment is also illustrated by the frequency with which these programs are disbanded and re-introduced under another name, featuring slight changes in eligiblity criteria and program regulations. The LEAD program frustrates some of the key principles of CBED such as local control, initiation from within the community, and socio economic development.

The second research question asked if credit unions are well-suited to accommodate the principles of CBED. Two fundamental constraints presently act to prevent credit unions from taking an active role in CBED and make them less than well suited to do so. First and foremost is the lack of social responsibility on the part of the modern credit union. Credit unions are viewed solely as banking institutions by their members and boards, and consequently have exhibited little interest in CBED to date. Secondly, even if credit unions did exhibit the will to participate in CBED, high levels of risk associated with CBED enterprises are problematic for this non-profit organization. Should credit unions develop an interest in CBED, reconciling low profit margins with high levels of risk will be of primary importance. There are a number of innovative features which the credit union could introduce to reduce risk or at least be compensated for risk taking of this nature, which deserve further investigation. However, credit union participation in CBED is not limited to financial involvement. Credit unions can act to provide management advice to local community groups and to facilitate or initiate a process of CBED.

The chief reason why credit unions are attractive from the point of view of CBED would appear to lie in their cooperative, democratic decision making structure. This provides a mechanism whereby member needs can be incorporated into decision making, by virtue of the one-member, one-vote decision rule. In a situation where the credit union does possess the desire to participate in strengthening the local economy, the credit union board can represent these needs. The evidence concerning the advantages of local control and local ownership for community based economic development is not conclusive. However, the credit union does exhibit a flexibility in policy making and corresponding ability to adapt to the local situation which arise because of its parochialism. However, the credit union is still constrained by the need to reconcile risk and reward in lending to CBED enterprises.

The final research question asked whether there is empirical evidence to substantiate the assertion that credit unions are capable of participating in CBED and consequently should become involved in their local community in this way. Credit union interest in the notion of CBED is not widespread at this time, but there are a number of innovative initiatives underway in various places. The two credit union examples presented here are evidence of this, as are the three credit union initiatives described in Appendix A. Both B.C. credit unions demonstrated strong resolve to participate in CBED. This is vividly illustrated by Nanaimo District Savings Credit Union which was under supervision by the Credit Union Deposit Insurance Corporation at the time the Community Ventures Account was initiated.

Based on these two examples, it appears that existing credit unions (and the distinction is a necessary one), are likely to pursue a cautious, conservative approach to CBED in terms of time and money; one which is likely to be fragmented from normal credit union operations and represent a partial commitment to CBED principles. The two credit union initiatives described in the previous chapter have not had an appreciable impact on their respective local communities and do not represent a significant share of credit union resources. However, both credit unions are relatively new to this and a longer term view is necessary when speaking about CBED. The advantage to this approach is that there are 134 credit unions in B.C. which ostensibly could participate in CBED in an incremental way without the effort involved in forming a new credit union. Despite the cautiousness of these two credit unions, they are held up as models to the rest of the credit union system in respect of CBED, and are viewed as progressive and innovative.

The discussion regarding the role of the credit union in community based economic development should be placed in the larger context of funding for CBED in general. As we have seen, employment development and economic growth within a regional or local context can be described as somewhat of a common denominator in CBED, both of which are regarded as the mandates of the federal and provincial governments. These two levels of government spend inordinate amounts of money on various job creation and regional development schemes, but with limited success. If CBED is also a public good, then it is important to ask why a private institution such as a credit union should undertake to finance or otherwise support CBED. In this case, should CBED be financed through tax dollars, rather than on the backs of credit union members? There is a strong argument for government support for CBED as opposed to private funding through credit unions. However, given the inadequacy of regional development policy, short-term job creation and CBED programs such as LEAD, the likelihood that government will play a significant role in funding CBED is limited. Consequently, CBED organizations will have to depend on alternative sources such as the credit union. There is scope for government support of credit union initiatives in favour of CBED, through a loan guarantee program for example. Furthermore, there are several interesting alternatives for CBED financing beside credit unions, such as labour investment through pension funds, social investment by church groups and revolving loan funds. Credit unions should be viewed as only one among many participants in facilitating community based economic development.

In conclusion, while interest among local credit unions may be growing as demonstrated by the Nanaimo and VanCity initiatives, a potential barrier to credit union participation arises because they do not differ from banks in their actions and may not regard CBED as their responsibility. Education may serve to heighten interest in CBED among credit unions, especially if it can be demonstrated that participation is of benefit to credit union members. Credit unions can make a contribution to CBED but it is likely that their financial role will be limited until some mechanisms are found to mitigate the risk associated with lending to CBED enterprises. Other valuable options do exist for credit union involvement in CBED such as providing management advice, making credit union deposit-taking facilities available to CBED groups and acting as a facilitator in the community for CBED.

Suggestions for Further Research

One of the functions of preliminary research is to identify areas where further research would be advantageous. It is possible to identify several areas where further research could contribute to understanding the relationship between the credit union and community based economic development. First of all, it would be instructive to obtain a more comprehensive understanding of the extent of credit union participation in CBED throughout Canada, where these activities occur, and the type of strategies and institutional arrangements employed. Of particular interest is the Desjardins Group in Quebec which for instance, just completed the first 'social audit' of its operations and provides equity capital to cooperatives in the province through a subsidiary corporation. One suspects that a great amount of activity occurs in Quebec which is basically barred from view by virtue of the language barrier. A comprehensive evaluation of a particular credit union initiative undertaken after a sufficent period of time (seven to ten years), would contribute to greater understanding of the potential impact of credit union initiatives in respect of CBED.

An interesting question relating to the credit union might ask whether the typical credit union functions as a community development financial institution in its own right by mobilizing local savings or providing community services? Does the credit union act to reduce leakages from the community economy in a way that chartered banks do not? Another related empirical question concerns whether credit unions do operate in a manner which distinguishes them from other financial institutions? A good example would be Nanaimo District Savings Credit Union; while it has been unable to achieve much with the Community Ventures Account, it appears to be integrated into the local community and cooperative sector in an important way.

On a more strategic or operational level, two additional strands of research would be useful from the point of view of community based economic development in general. The prospect of a specialized loan guarantee fund for CBED lending means that further research on the specifics of such a program, perhaps based on the experience of the Small Business Loans Act guarantee program, would be useful. In the same vein there are a number of technical and financial issues raised by the prospect of credit unions becoming involved in CBED such as matching different level of risk or rate of return with investment and lending options available to credit unions. An understanding of these issues is critical to expanding the scope of credit union participation in CBED.

Finally, no detailed study of the various long-term employment development programs of Employment and Immigration Canada has been carried out to date or at least made public. There are ostensibly some important questions surrounding the efficacy and value of these programs from the point of view of community based economic development. First of all, are the existing programs really CBED programs at all? Do program requirements mean the projects are doomed to failure by unsuitable terms and conditions, and continuous reorganization? Is the employment ministry the appropriate agency for delivery? On a broader level, it is also useful to consider the role of government in CBED.

Proposals

The proposals outlined below are directed toward three groups or organizations: local credit unions, B.C. Central Credit Union and community based economic development organizations in the province. These suggestions are practical and arise in response to the constraints to credit union participation described in Chapter 4 and weaknesses identified in the assessment of Nanaimo and VanCity credit union initiatives.

Local Credit Unions should:

1) Become familiar with the experiences of other credit unions involved in CBED, with particular attention to strategies, community involvement, and institutional arrangements.

2) Investigate community organizations in their area that have a mandate for economic development, employment creation or social service provision for their potential as partners in a CBED program.

B.C. Central Credit Union

It is recognized that the initiatives described below are contingent upon local credit union support. Bearing this in mind, the following initiatives are proposed:

1) Undertake a research program to investigate business options, industry sectors, economic indicators useful for credit union participation in CBED.

2) Examine training and education programs for credit union managers and board members for relevance to CBED. Techniques of analysing CBED proposals and monitoring business loans are of prime importance.

3) Investigate utility of loan guarantee program for CBED. If feasible, prepare brief for presentation to appropriate Ministry.

CBED Organizations should:

1) Consider local credit union when seeking financing.

2) Investigate possibility of including local credit union in their economic development or employment creation program.

3) Seek election to a credit union board to assist in formulating CBED policy.

BIBLIOGRAPHY

COOPERATIVE MOVEMENT

Coady, M. M. Masters of Their Own Destiny New York: Harper and Row, 1963.

Cooperative Housing Foundation. A Cooperative Development Strategy for Canada. Report of the National Task Force on Cooperative Development, Ottawa: May 1984.

Cooperative Future Directions Project. Patterns and Trends of Canadian Cooperative Development. Downsview: Cooperative Future Directions Project, 1982.

McPherson, Ian. Each For All: A History of the Cooperative Movement in English Canada 1900-1945. Toronto: MacMillan Ltd., 1979.

Melnyk, George. The Search for Community : From Utopia to a Cooperative Society. Montreal: Black Rose Books, 1985.

CREDIT UNIONS

Axworthy, C.S. "Credit Unions in Canada: The Dilemma of Success." University of Toronto Law Journal Winter 1981

Bergengren, Roy F. Credit Union North America Kingsport, Tenn.: Southern Publishers Inc. 1940.

British Columbia. Credit Union Act 1985.

British Columbia. Credit Union Regulation 1983.

B.C. Central Credit Union. 1985 Annual Report

B.C. Central Credit Union. Enterprise Vol 45, No. 2, May-June 1985.

B. C. Central Credit Union. Credit Unions and Cooperatives in British Columbia: An Information Kit. Fourth Edition Vancouver, October 1984.

B. C. Central Credit Union. Revitalizing Communities: B.C. Credit Unions and Community Economic Development. February, 1986.

Canada. Statistics Canada. Credit Unions Catalogue 61-209 Ottawa, 1983.

Canada. Statistics Canada. Financial Institutions Catalogue 61-006, Ottawa, 1985.

Caftel, Brad J. Community Development Credit Unions : A Self Help Manual. Berkeley: National Economic Development Law Project, 1978.

Clements, Muriel. By Their Bootstraps Toronto: Clark, Irwin and Company Ltd., 1965.

Cooperative Development Credit Union Institute, Community Development Credit Unions Washington: The National Centre for Urban Ethnic Affairs, 1979.

Financial Post. "Credit Unions Eager to Get More Involved in Commercial Loans" Sept. 21, 1985. P. B8.

Globe and Mail. "Credit Unions Eager for Eased Regulations on Commercial Loans." March 28, 1986. P. B14.

Kenyon, Ron. To The Credit of the People Toronto: The Ontario Credit Union League Ltd., 1976.

McGuiness, Fred. 10 to 10: Canadian Credit Unions from 10 Cents to 10 Billion Dollars in 75 Years. Toronto: National Association of Canadian Credit Unions, 1976.

Nanaimo District Savings Credit Union. 1985, 1986 Annual Report Nanaimo: 1986, 1987.

Neufeld, E. P. The Financial System of Canada: Its Growth and Development. Toronto: MacMillan, 1972.

Purden, Christine. Agents for Change: Credit Unions in Saskatchewan. Saskatoon: Credit Union Central, 1980.

Smith, Ward Cliff Rosenthal and Harold Gore. An Analysis of the Role of Credit Unions in Capital Formation and Investment in Low and Moderate Income Communities The National Federation of Community Development Credit Unions and Department of Health and Human Services. Dec 1986.

Thompson, Rollie. No Ordinary Concern: The Law and Practise of Credit Unions. Nanaimo: Creduco Services Ltd., 1978.

Vancouver City Savings Credit Union. Annual Report 1986, 1985 Vancouver: 1987, 1986.

Wolff, H. W. Coop Banking: Its Principles and Practice. London: P.S. King and Son, 1907.

REGIONAL ECONOMIC DEVELOPMENT

Anderson, O. And P. Boothroyd. Patterns, Progress and Development Vancouver: UBC School of Community and Regional Planning. Discussion Paper #4, 1984.

Birch, David. "Who Creates Jobs" Public Interest 65 (Fall): 3-14, 1981.

Brookfield, Harold. Interdependent Development London: Methuen and Co. Ltd., 1975.

Coffey, William J. And Mario Polese. "Local Development: Conceptual Bases and Policy Implications." Regional Studies Vol. 19, No. 2, April, 1985. Pp. 85-93.

Coffey, William J. And Mario Polese. "The Concept of Local Development: A Stages Model of Endogenous Regional Growth" Papers of the Regional Science Association Vol. 54, 1984.

Davis, H. Craig and Lauren E. Davis. The Labor Exchange Trading System: A Non-Monetary Approach to Community-Based Economic Development. September, 1986.

Economic Council of Canada. Living Together: A Study of Regional Disparities Ottawa: Supply and Services, 1977.

Fisher, Peter S. "The Role of the Public Sector in Local Development Finance : Evaluating Alternative Institutional Arrangements" Journal of Economic Issues 17: 13-53, March 1983.

Friedmann, John and Clyde Weaver. Territory and Function: The Evolution of Regional Planning London: Edward Arnold, 1979.

Friedmann, John and Yvon Forest. The Politics of Place: Towards a Political Economy of Territorial Planning Los Angeles: Graduate School of Architecture and Urban Planning, University of California, 1984.

Martin, Fernand. " L'Entreprenueurship et le Developpement local: Une Evaluation." Canadian Journal of Regional Science. Vol. 9, No. 1, Spring 1986. Pp. 1-23.

Myrdal, Gunnar. Economic Theory and Under-developed Regions London: Gerald Duckworth and Co. Ltd. 1957.

Redburn, F. Stevens and Terry F. Buss, (eds.) Public Policies for Distressed Communities. Lexington, Mass.: D.C. Heath and Co., 1982.

Savoie, Donald J. "Courchene and Regional Development: Beyond the Neoclassical Approach" Canadian Journal of Regional Science Vol. 9, No. 1, Spring 1986, pp. 69-79.

Seers, Dudley. "The Meaning of Development" International Development Review Vol. 19, No. 2, 1977 (first pub 1966)

Seers, Dudley. "The New Meaning of Development" International Development Review Vol. 19, No. 3, 1977.

Shapira, Philip and Nancey Leigh-Preston. "Urban and Rural Development in the Western United States: Emerging Conflicts and Planning Issues" Journal of Architectural and Planning Research 1:37-55 June 1984.

Weaver, Clyde and Thomas I. Gunton. "From Drought Assistance to Mega-projects: Fifty Years of Regional Theory and Policy in Canada" in Donald J. Savoie (ed.) The Canadian Economy: A Regional Perspective Toronto: Methuen Publications, 1986.

Weaver, Clyde. Regional Development and the Local Community: Planning, Politics and Social Context Avon: John Wiley and Sons, 1984.

COMMUNITY ECONOMIC DEVELOPMENT: THEORY AND PRACTISE

Brodhead, P.D., Micheal Dector and Ken Swenson. Community- Based Development: A Development System for the 1980's. Technical Study #3. Task Force on Labour Market Development. Ottawa: Supply and Services, 1981.

Campfens, Hubert. (ed.) Rethinking Community Development in a Changing Society. Guelph: Ontario Community Development Society, 1983.

Clague, Micheal. Community Economic Development in British Columbia. Report on a Provincial Seminar Vancouver: Social Planning and Review Council, January, 1985.

Cummings, Scott and Mark Glaser. "An Examination of the Perceived Effectiveness of Community Development Corporations: A Pilot Study" Journal of Urban Affairs Vol. 5 Fall 1983 pp. 315-330.

Daniels, Beldon Hull. The Mythology of Capital in Community Economic Development Policy Note P79-2, Cambridge: Department of City and Regional Planning, Harvard University, 1979.

Dorsey, Candas Jane and Ellen Ticoll. The Nuts and Bolts of Community Based Economic Development. Edmonton: Edmonton Social Planning Council, 1984.

Dykeman, Floyd W. A Return to the Past For a Rural Community-Based Planning and Action Programme For The Future: A Challenge for Planners Paper presented at the Canadian Institute of Planners Conference. Vancouver: July 1986.

Hayton, Keith. "Community Business: A New Role for the Planner" Planning Outlook Vol. 27, Issue (2) 1984, pp. 79-84.

Highland Resources Ltd. Community Based Development in Canada: Organizational Inventory and Needs Assessment Volume 1, Sydney, Nova Scotia: 1983.

Jackson, E. T. Community Economic Self-Help and Small Scale Fisheries Ottawa: Dept. Of Fisheries and Oceans, 1984.

Lotz, J. "Community Entrepreneurs" Policy Options Vol. 5 March-April 1984 pp. 40-42.

MacLeod, G. "Profitable Community Development." Policy Options Vol. 6 No. 8 1985 pp. 20-22.

MacLeod, Greg. New Age Business: Community Corporations That Work Ottawa: Canadian Council on Social Development, 1986.

Mier, Robert and Wim Wiewel. "Business Activities of Not-for-Profit Organizations" Journal of the American Planning Association Vol. 49 No. 3 1983

Nicholls, William and William A. Dyson. The Informal Economy Ottawa: Vanier Institute of the Family, 1983.

Nielsen, Carol and Nancy McLeod. 1986 Resource Directory: Community Economic Development for British Columbia Vancouver: SPARC, 1986.

Owen, Thomas. Community Economic Development in Rural Canada: Handbook for Practitioners. Ottawa: Supply and Services, 1981.

Ross, David P. and Peter J. Usher. From the Roots Up: Economic Development as if Community Mattered. Croton-on-Hudson: Intermediate Technology Group, 1986.

Stinson, A. "Community Economic Development: Review Article" Perception Vol. 6 January 1983 pp. 35-6.

COMMUNITY AND COMMUNITY DEVELOPMENT

Biddle, William W. And Loureide J. Biddle. The Community Development Process: The Rediscovery of Local Initiative. New York: Holt, Rinehart and Winston, 1965.

Chekki, Dan A. (ed.) Community Development: Theory and Method of Planned Change. New Delhi: Vikas Publishing House, 1979.

Cox, Fred M. Et al (eds.) Strategies of Community Organization (third edition) Itasca: F.E. Peacock, 1984.

Lockhart, Alexander and Elizabeth Lockhart. Community: The Literature Background for A. Lockhart's Planning 514 Lecture, Vancouver: School of Community and Regional Planning UBC. January 21, 1986.

Roberts, Hayden. Community Development: Learning and Action Toronto: University of Toronto Press, 1979.

Warren, R. Social Change and Human Purpose: Toward Understanding Action. Chicago: Rand MacNally Publishers, 1977.

SMALL BUSINESS AND FINANCIAL INSTITUTIONS

Bank of Canada. Bank of Canada Review Ottawa: September, 1986.

Bearse, Peter J. (ed.) Mobilizing Capital New York: Elsevier, 1982.

Benson, John N. Provincial Government Banks: A Case Study of Regional Response to National Institutions Vancouver: The Fraser Institute, 1978.

Canadian Bankers Association. The Banks and the West: Facts, Figures and the Future. Vol. 16, No. 2, July 1973.

Canadian Federation of Independent Business. A Study of Job Creation 1975 to 1982 and Forecasts to 1990. Toronto: 1983.

Canadian Federation of Independent Business. 1985 Banking Survey Toronto: December 11, 1985.

Hatch, James. Bank Financing of Small Business in Canada Executive Summary. London: University of Western Ontario, School of Business Administration, 1982.

Hatch, James, Larry Wynant and Mary Jane Grant. Government Loan Guarantee Programs for Small Business London: School of Business Administration, 1985.

BIBLIOGRAPHIES

Barbe, N. and J. Sekera. States and Communities: The Challenge for Economic Action. National Congress for Community Economic Development and Council for Community Development, 1984.

Council of Planning Librarians. Fifteen Years of Community-Based Development: An Annotated Bibliography 1968-1983. #156, September 1985.

Glasmeier, Amy K. Regional Planning and Economic Development: A Bibliography Council of Planning Librarians, #112. May 1983.

Shapira, Philip. Economic Development Analysis and Planning in Advanced Industrial Economies: A Bibliography Council of Planning Librarians, #111. June 1983.

Stalls, Suzanne, Frank Manley and John Volkman. Community Economic Development: Annotated Bibliography and Resource List. (1st edition) Washington, D.C.: National Center for Appropriate Technology, 1979.

APPENDIX A

OTHER CREDIT UNION INITIATIVES

This section is intended to give the reader a sense of the scope of local development activities undertaken by credit unions outside B.C. specifically: the caisse e'entraide economique in Quebec, the community development credit union in the U.S. and the Caja Laboral Populaire in Spain. These credit unions differ from those described in Chapter 5 in that they function almost exclusively to develop the local economy, much in the same vein as community based economic development.

Caisse D'Entraide Economique

The caisse d'entraide economique (CEE) originated in Quebec in the 1960s out of a concern for self reliant development in the context of the Quiet Revolution.[1] The CEE were cooperative financial institutions established to pool the savings of Quebecers living in small towns and rural areas for investment in locally based enterprises. They were not associated with the Desjardins federation. As with many other CBED efforts, the CEE employed two strategies; financial support and networks of "advisors" to assist residents in forming or expanding

---

[1]Owing to the extreme difficulty of obtaining detailed information concerning the CEE in english, this discussion will be brief.

businesses. Investment shares called "capital social" provided the vehicle to finance local economic development. By 1981 there were 77 CEE with 350,000 members and assets worth $1.4 billion of which roughly 85 percent consisted of loans made within the local region. (Bureau de la statistique du Quebec, 1986)

However, the caisse d'entraide economiques experienced a financial crisis in 1981, brought about in part by high interest rates. The caisses had been borrowing on a short term basis and lending on a long term basis. Both the provincial government and the Canadian Deposit Insurance Corporation offered assistance to the caisses and by the end of 1985, several of the caisses had joined the Desjardins system and the remainder were restructured and renamed societe d'entraide economique. The CEE are just one example of an innovative cooperative financial institution operating in the province of Quebec. The Desjardins Group of caisses populaires also has a number of community development and venture capital subsidiaries which are of interest to a consideration of credit union participation in CBED.

Community Development Credit Unions

Community development credit unions (CDCU) are another interesting system of credit unions, which, according to a recent study, are performing the important function of savings mobilization in low-income communities in the U.S. (NFCDCU 1986) CDCU are financial cooperatives serving low-income neighbourhoods which have an explicit mandate of community investment and which provide some insight to the consideration of the role of credit unions in community based economic development in Canada.[1]

There are approximately 400 CDCU in the U.S. with approximately 350,000 members. The impetus for most of these credit unions, many of which were chartered between 1960 and 1969, was the anti-redlining movement and concerns regarding disinvestment which occurred in American inner city neighbourhoods at that time. (Caftel 1978) Interestingly, Community Action Agencies of the War on Poverty program served as sponsors for many limited income credit unions. (NFCDCU 1986) Most CDCU have assets of less than $500,000, extremely small in comparison to B.C. credit unions.

The CDCU's primary activities include basic savings and loans services consisting primarily of personal loans, residential real estate loans, other real estate loans and small business loans. The value of the average outstanding loan in 1984 was $2844. Despite the fact that CDCUs serve a high risk population they have not incurred dramatic losses, maintaining a bad debt ratio comparable to that of other financial institutions. (NFCDCU 1986) The study estimated that business loans to traditional and non-profit organizations created 16,000 to 17,000 jobs at a cost of $6000 per job from 1981 to 1984.

CDCUs are able to pursue community development goals by

---

[1]CDCU differ from regular credit unions in that they possess a majority of low-income members in their field of membership which may be defined on an associational, occupational or geographic basis.

virtue of some innovative policies and programs. Firstly, CDCUs accept non-member deposits, mostly from individuals, churches, corporations and foundations, to expand their deposit base and subsequently to make more loans. These allow the credit union to withstand the difficult formative period and more specifically to permit larger scale community development efforts than would otherwise be possible. A CDCU revolving loan fund was recently re-activated by Congress, which will likely take the form of low-interest deposits in CDCUs and possibly some technical assistance for community economic development. CDCUs are also linked with Community Development Corporations in some communities and have in fact established their own CDCs in some cases.

Caja Laboral Populaire

Mondragon is often referred to in the CBED literature as a model of community development. (MacLeod 1986; Wismer and Pell 1982) Somewhat similarly, the Caja Laboral Populaire (CLP), the credit cooperative associated with Mondragon producer cooperatives in the Basque region of Spain, is viewed as a model of credit union participation in CBED. It was formed in 1959 specifically to capitalize new cooperative enterprises and coordinate technical assistance to potential new enterprises. This was a highly innovative strategy since the history of cooperatives was one of isolated development of consumer, producer and credit cooperatives. The motto of the CLP was 'Libreta o Maleta' meaning 'savings book or suitcase.' It referred to the fact that by investing in their community, young Basques would not have to emigrate to find work.

The Caja Laboral Populaire is part of a complex system of cooperatives governing all aspects of everyday life in Mondragon. Apart from the CLP and worker cooperatives, there is a highly evolved cooperative education and social security system which further support the long-term goals of the Basques. The Caja Laboral Populaire and Mondragon in general have been very successful in achieving their goals. By the early 1980s over 80 worker cooperatives had been financed creating over 17,000 jobs. Wismer and Pell (1982) attribute the success of the CLP to the fact that legislation allows cooperative banks in Spain to pay higher interest rates on deposits than other financial institutions.

The Caja Laboral Populaire is unique among credit unions for its integration with other elements of the Mondragon system. Furthermore, the close working relationship between the Management Services Division of CLP and potential producer cooperatives suggests that there is some connection between the quality and quantity of management advice and successful worker cooperatives. The Management Services Division of CLP has three main activities: promotion, assistance and engineering, for which it employs economists, engineers, lawyers, urban planners and others. In order to promote the creation of new cooperatives, the CLP puts together bank experts and new coop managers who work together for several years preparing feasibility studies and the like. Once financial support is committed, the CLP further guarantees continuing assistance to the cooperative should it be required.

APPENDIX B

LIST OF PERSONS INTERVIEWED

Allen, Richard. Chief Economist, B.C. Central Credit Union. Vancouver: Interview October 20, 1986.

Back, Ian H. Economist, Community Economic Development Branch, B.C. Ministry of Industry and Small Business Development. Victoria: Interview June 3, 1986.

Cox, David. Manager, Seed Capital Project, Vancouver City Savings Credit Union. Vancouver: Interview May 7, 1986.

Gordon, Larry. Communications Co-ordinator Credit Union Central of Ontario. Toronto: Interview by telephone, Feb 10, 1987.

Hann, Brian. Manager, Independent Business, Royal Bank. Vancouver: Interview by telephone, December 15, 1986.

Jardine, Keith. B. C. Central Credit Union, Vancouver: Interview August 13, 1986.

Jessop, John. Social Planner, Vancouver Social Planning Department, Vancouver: Interview by telephone, June 4, 1986.

Exell, Oksana. Director Provincial Affairs. Canadian Federation of Independent Business. Vancouver: Interview August 12, 1986.

Leach, Joy. Member, Board of Directors, VanCity Saving Credit Union. Vancouver: Interview by telephone March 1986, April 10, 1987.

MacMillan, Don. General Manager, Colville Investments Corporation. Nanaimo: Interview by telephone Feb 10, 1987.

McClure, David. Manager, Teachers Credit Union. Vancouver: Interview by telephone, October 9, 1986.

Marzari, Darlene. Board Member, Vancounver City Savings Credit Union. Vancouver: Interview December 8, 1986.

May, Ken. General Manager, Nanaimo District Savings Credit Union. Nanaimo: Interview May 31, 1986.

Olson, John. Manager, Alberni-Clayquot Development Society. Port Alberni: Interview by telephone November 19, 1986.

Podovinikoff, Peter. Chief Executive Officer, Delta Credit Union. Interview May 23, 1986.

Rosenthal, Clifford. Executive Director, National Federation of Community Development Credit Unions, New York: Interview by

telephone March 24, 1987

Ruffin, Catherine. Manager, Community Congress for Economic Change (CCEC). Vancouver: Interview by telephone, May 26, 1986.

Shantz, Barbara. Director, Community Futures, Employment and Immigration Commission. Vancouver: Interview August 12, 1986.

Williams, Bob. Vice Chairman, Board of Directors, VanCity Savings Credit Union. Vancouver: Interview, May 13, 1986.

APPENDIX C

SUMMARY OF FEDERAL AND B.C. GOVERNMENT PROGRAMS OF USE IN COMMUNITY BASED ECONOMIC DEVELOPMENT[1]

(as at September 1986)

FINANCIAL SUPPORT

Federal Government Programs

1- Canada Employment and Immigration Commission (CEIC)

Canadian Jobs Strategy, six program options
- Community Futures
- Innovations
- Job Development
- Job Entry
- Skill Investment
- Skill Shortage

2- Department of Regional Industrial Expansion (DRIE)

Business Improvement Loans

Industrial and Regional Development Program

Native Economic Development Program

Special Agriculture and Rural Development Act

3- Federal Business Development Bank (FBDB)

Term Loans

Loan Guarantee Program

Financial Planning

4- Indian and Northern Affairs

Indian Community Human Resources Strategies Program

Indian Economic Development Fund

Provincial Government Programs

---

[1]Source: Nielson, Carol and Nancy McLeod. Community Economic Development 1986 Resource Directory for British Columbia. Vancouver: SPARC, 1986.

1- B.C. Development Corporation

Low Interest Loan Assistance

2- Ministry of Industry and Small Business

Assistance to Associations

Community Organizations for Economic Development

Student Venture Capital Program

Technical Assistance B.C.

Technology Assistance Program

3- Ministry of Municipal Affairs

Partners in Enterprise for Economic Renewal

4- Joint Federal and Provincial Programs

Small Manufacturers Incentive Program

Tourism Industry Development Sub-Agreement

BUSINESS ADVISORY SERVICES

Federal Government Programs

1- Federal Business Development Bank

Business Information Centre

Counselling Assistance for Small Enterprises

Financial Planning Program