BEYOND BANKING:
THE POTENTIAL FOR CREDIT UNION PARTICIPATION IN COMMUNITY ECONOMIC DEVELOPMENT

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ABSTRACT

Many communities in Canada are experiencing high levels of unemployment, poverty, social breakdown and environmental degradation. In an effort to address these problems, individuals, community groups and all levels of government, are experimenting with an approach to development called community economic development (CED). CED is a grassroots, bottom-up process that focuses on the creation of stable, viable, and equitable local economies. In trying to implement CED strategies, communities and individuals face many obstacles, one of the most significant of which is a lack of capital. Credit unions are locally-owned and controlled co-operative financial institutions with access to significant pools of "local" capital and therefore logical places for communities to turn. This thesis explores ways these institutions can support community economic development in their communities.

An examination of the literature and interviews with credit union leaders and CED practitioners, demonstrate that most credit unions are not involved in CED lending. Nor are they particularly committed to CED ideals. This being said, however, the research shows that there are a few credit unions, in both Canada and the United States, that do participate in CED. These credit unions--some with a holistic commitment to CED, others with a partial commitment--support CED in a variety of ways, only one of which is through financing. In addition to providing access to capital, these credit unions fulfil other support functions such as providing technical assistance, building "community" and supporting community infrastructure development.

Credit unions that participate in CED are not typical of the credit union movement. Most credit unions do not play a role in supporting community economic development in
their communities. The study found that there are significant barriers to their participation in CED, barriers such as a lack of vision, the nature of CED lending, and competition from private financial institutions. In order for credit unions to participate in CED, these barriers must be removed. Ways to reduce some of the barriers are explored in the thesis. The research shows that in order to be able to participate in CED, credit unions require: a committed leadership, staff with community development expertise, new deposits of capital, a means of subsidizing the costs of CED lending, and institutional mechanisms that reduce risk as well as government support. Ways for credit unions to fulfil these needs are outlined. Lastly, research findings are summarized and conclusions are drawn about the role individual credit unions can play in CED. The kinds of initiatives credit union centrals, governments and planners can adopt to support credit unions in this work also explored.
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CHAPTER 1 PURPOSE AND RATIONALE

1.1 Introduction

Changes in the national economies of both Canada and the United States over the past 20 years have drastically affected the economic and social realities faced by many communities. The picture is one of increasing levels of joblessness, poverty, social breakdown and environmental degradation. Unemployment, fear, violence, isolation, and hopelessness are becoming a part of daily life for more and more people. There is a growing discrepancy between where communities would like to go, and the direction in which they are being pushed by the forces of global economic restructuring (Schramm 1987).

The situation, however, is not entirely bleak. An alternative development paradigm is gaining support among people living in these devastated communities. It is an alternative that offers people the hope of reclaiming control over their own lives and well-being. One part of this paradigm is community economic development, a bottom-up, community-controlled process of economic development that emphasizes the internal re-structuring of the economy and goals of equity, self-reliance, participation and stability.

Communities and individuals seeking to implement a CED strategy face many obstacles, primary among them being a lack of capital. Capital is scarce because neither governments nor traditional financial institutions, such as banks and trust companies, invest

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1Schramm (1987) quotes extensively from the report Employment and Economic Development to illustrate changes that are occurring in communities. The report identifies five normative goals to which a local economy might realistically aspire. These are: vitality, equity, security, quality, and empowerment. It then shows the gaps that exist between these goals and the economic realities facing many communities. These gaps and their growth over time, are the primary reason why new strategies for local economic development are being sought.
in community economic development. In order for CED to flourish, communities must gain control over pools of capital that can be invested in community institutions and projects. There exist already in many communities in Canada, locally-owned and controlled financial institutions called credit unions with access to significant pools of "local" capital. These institutions are the focus of this thesis.

Credit unions are community-based, democratically-controlled, co-operative organizations. In aggregate, credit unions control over $80 billion in assets and are found in many communities throughout Canada. Their co-operative structure and their foundations in "community," as well as the considerable financial resources they control, make credit unions very attractive to CED.

1.2 Purpose

The purpose of this thesis is to explore ways for credit unions to support community economic development in their communities. In order to fulfil this purpose, three objectives are set out:

1. To assess the level of credit union participation in CED;
2. To show what credit unions are currently doing to support CED;
3. To analyze the potential for credit union participation in CED.

The rationale for undertaking this study is explained in the next section.

1.3 Rationale

Many communities throughout Canada are facing a decline in the economic, social, political, and environmental systems on which they rely. In response to this decline--and the failure of local economic development efforts to arrest the degeneration--there is emerging a
growing interest in an alternative economic development strategy called community economic
development (CED). CED has been around for a number of years, but its currency has
increased as the crisis facing communities has deepened.²

CED is a grassroots, bottom-up process of economic development geared towards
enhancing the health and vitality of the local economy through the integration of social,
environmental, and economic concerns. CED is initiated and controlled by the members of
the community who utilize local resources and their own skills and knowledge to plot a
development course that suits the unique needs and assets of their particular community.
CED focuses on the development of community institutions, human resources, and planning
capabilities as well as emphasizing community control over local resources.

CED is an effective and unique strategy for dealing with the problems of poor
people, powerless people, and [all] communities. As an intervention strategy
in [a particular] community...it seeks to change the structure of the community
[economy] and build permanent institutions within [it].³

CED is being adopted by communities in underdeveloped regions as well as in poor
and minority communities. Lewis (1993) identifies it as a strategy for the development of
economic opportunities in disadvantaged regions, distressed communities and marginalized
populations (e.g., women, First Nations, visible minorities, physically and mentally-
challenged). CED has not yet been adopted on a widespread basis, however. So far its use
is quite limited; it appears in the cracks and fissures of the mainstream economy, particularly

²Unstable employment, environmental degradation, resource scarcity, the widening gap
between rich and poor, increasing levels of poverty, loss of control over economic and political
institutions, social and community breakdown are only some of the problems faced. For further
discussion of these problems see Friedmann 1987; Dauncey 1988; Nozick 1992.

³This definition of CED was drafted at a recent symposium on CED sponsored by the
National Welfare Grants program of National Health and Welfare Canada (quoted by Lewis
1993:4).
in places where the latter has failed dramatically (e.g., mine closings, very poor neighbourhoods). But the idea of small-scale, community-based economic alternatives is becoming more attractive as a growing number of communities experience the full brunt of global economic re-structuring.

The turn to CED reflects the failure of traditional local economic development approaches to bring these communities lasting stability and prosperity. For many years, communities have pursued such strategies as smoke-stack chasing, local boosterism, and mega-project development, with limited success. All of these approaches rely on outside interests to generate sufficient economic activity to support the community. While this kind of development may bring momentary relief, in the long run, it distorts community priorities and needs; the efforts required to please outside interests far exceed the return on the community’s investment. So rather than contributing to the viability of the local economy, traditional economic development approaches frequently exacerbate the dependency and instability from which communities are trying to escape.

According to Perry (1987:46), these approaches ultimately fail because they treat economic development as primarily and solely business development. They distort what economic development means at the local level by focusing on only one aspect—growth in GNP. Economic development is a far more subtle, complex and demanding process which "involves a social, psychological, [environmental] and cultural dimension as well as an economic one (Perry 1987:55)." CED is so attractive to communities because it offers them

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4 Communities have learned the hard way that these approaches are very costly—they require expensive location incentives such as tax reductions, inexpensive land, and lowered environmental standards, yet offer no guarantees that the re-located industry will stay (Meeker-Lowry 1988). For more details about local economic development strategies see MacPherson 1985; Perry 1987; and Boothroyd and Davis 1991.
a hope of achieving a more "full," holistic form of development—one that will sustain local inhabitants over the long-term.

One of the biggest obstacles to community adoption of this kind "holistic" approach to economic development, is a lack of adequate financial resources. Access to capital is a prerequisite for successful community economic development. Capital has been likened to the grease of CED (de Sousa-Shields 1993:9). Without it, efforts to develop CED initiatives grind to a halt. For this reason, the challenge of mobilizing and achieving more influence over capital is a crucial dimension of CED (Lewis 1993:1,4).

At present, the primary source of funds for CED in Canada is government. There are a number of problems associated with this source. Money from government programs is usually accompanied by a long list of restrictions, caveats and demands such that community priorities are frequently distorted and community initiative dampened. Moreover, government employees are often reluctant to support the kinds of alternative structures typical of many CED initiatives (Alderson and Conn 1988; Ketilson et al. 1992). Lastly, government funding is not dependable; it comes and goes with changes in political masters. Because government support for CED is so unreliable and uneven, CED activists are seeking to diversify the sources of capital for CED and achieve some measure of financial independence. A top priority is the creation of "community" capital, that is, locally-controlled and -managed pools of capital earmarked for investment in community institutions.5

5The Institute for Community Economics (ICE 1987:1-1) refers to this process as "community investment" and describes community institutions as "democratic, community-based economic institutions that express the sense of the local community and that promote social and economic justice through their allocation of equity, earnings and control."
The availability of locally-controlled pools of capital is essential if communities are to adopt CED as a development strategy.

Indigenous capital is a key plank in any realistic program for building [strong] local economies. If places are to gain any real control over their own economies, if they are to gain any capacity to encourage indigenous businesses--then they must have the ability to keep some locally generated capital within the region (Kemmis 1990:96,98).

Yet, few communities have the ability to retain local capital due to the way that capital markets and the financial industry are structured. The problem is not so much that there is no capital, as the fact that communities have little control over that capital which does exist, and where and how it is invested. There is lots of local capital, but it is not readily available, particularly to low income, marginalized or distressed communities.

[Residents of low income areas accept as fact the notion that] their community has an economic problem in that it has little or no capital for investment and that somehow the essential capital must be brought in. The problem is really not a lack of capacity. [Research has shown] that the so-called low income area generates considerable savings, but that these savings are often deposited in institutions whose decisions do not include local investment. In short, there is available capital, but it is conventionally exported to other localities (Perry 1987:38).  

Investment capital is therefore often not available to communities in forms that would enable them to invest in CED. It is deposited in privately-owned financial institutions (such as banks and trust companies) for whom investing in the local economy is not a priority.

In order to satisfy the demands of their shareholders, banks invest money where the rate of return is highest. With globalization of the banking industry, savings "placed in a

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6A study of 38 poverty communities in Chicago found that contrary to expectations there was considerable wealth in them. Over $1.8 billion in savings was deposited in hundreds of financial institutions and their branches throughout Chicago. Yet, these institutions returned only $9 million--5 cents for every $10 in savings--to these poverty communities in the form of home mortgages. For the poorest zip code, this figure was 1.5 cents for every $10 in savings (Caftel 1980:28).
local bank...quickly become part of an international pool [of capital]; they are collected in one of a few financial centres and lent or invested worldwide (Gunn and Gunn 1991:5)."

Just as the market for goods and services has become globalized, so has the market for capital. Instead of staying (and working) in the community where it is deposited, capital often leaks out via "investments" in mergers, acquisitions, foreign debt, speculation, commercial real estate, multi-nationals, international money markets, and government bonds (Bellan 1993).

There is currently a one-way flow of savings from people into banks without banks investing back into the community. In the United States, one in 14,500 commercial banks puts more money into low income communities than it takes out. Some banks do not lend at all, preferring to store deposits in treasury bills or long-term certificates. Other banks lend money for buy-outs and take-overs while ignoring actual business development projects. In 1983, mergers and acquisitions absorbed 69 times as much capital as net venture start-ups (Dauncey 1988:185).

Instead of being invested according to the unique needs of specific communities and their inhabitants, capital is invested according to the dictates of national and international capital markets. The movement of money is not restricted by allegiance to any place, rather it flows to where the monetary return is highest, often in other regions of the country and other parts of the globe.

CED initiatives, because they seek to balance social, community, economic and environmental concerns often have a difficult time attracting investment capital from mainstream financial institutions.⁷ CED businesses are denied access to credit because they

⁷CED initiatives are characterized by the fact that they have a multiple bottom-line. This means that they try to fulfill social and environmental objectives as well as economic ones. This type of social accounting rationale is completely foreign to conventional lenders. Banks look for an acceptable rate of return on their loans and do not include broader social and community goals among their priorities which limits their potential as a source of capital for CED (Eberle 1987).
"often [espouse] new organizational forms, nonhierarchical structures, and democratic management practices (Gunn and Gunn 1991:63)." Bankers seeking to avoid risk use all of these as reasons not to lend to them (Gunn and Gunn 1991). By restricting the allocation of investment capital in this way, the mainstream financial industry limits the development of CED institutions.

Since neither governments nor conventional lenders are meeting the financial needs of CED, alternatives are clearly required if CED is to flourish. If a community wants to adopt CED as its development strategy, then it must gain some measure of control over pools of capital that can be invested locally. There exist already in many communities in Canada, co-operative, community-based financial institutions with significant financial resources. Called "credit unions" or "caisse populaire" (in French-speaking areas of Canada), they offer a means of collecting a community's own capital resources and of reinvesting them in community projects and initiatives. Credit unions have survived and flourished for many years in many different kinds of communities. Over the years they have acquired financial expertise and a system of support that make them a stable and secure source of financial capital. They thus would appear to offer a solid financial base upon which a community could build a CED strategy.

Credit unions are of particular interest to CED activists because of their structure and philosophy. Credit unions are: locally-owned and -managed, structured around "community," democratic, co-operative, and committed to keeping capital local by making it available to members (Purden 1980; Axworthy 1981; Eberle 1987). As self-help organizations built on the principles of co-operation, equity, and self-reliance, they would appear to have a great deal in common with CED. This thesis takes a closer look at these organizations to determine whether they have a role to play in supporting CED.
1.4 Methodology

Two methods were used to study this topic: a review of the literature and interviews. Firstly, the relevant economic development, planning, and community investment literature was reviewed. Then, interviews were conducted to verify the findings from the literature.

The literature studied came from a variety of sources: books, academic journals, government publications, government policy documents, brochures and pamphlets from credit unions and other community financing organizations, as well as personal letters, notes and unpublished policy documents.

The interviews were conducted over a period of two years and represented for me the most interesting and rewarding phase of the research. Interviewees were selected on the basis of their:

* Involvement in the credit union system;
* Interest or expertise in CED;
* Employment by government; and/or
* Involvement in some aspect of community financing relevant to credit unions.

Appendix I contains a list of the people interviewed as well as a list of the types of questions they were asked.

1.5 Thesis Summary

The thesis is divided up into seven chapters. The first chapter presents the purpose and rationale for the study. Chapter II describes community economic development in more detail—outlining the ways that this development strategy differs from traditional economic development and identifying one of CED’s primary objectives as the restructuring of the local economy. Lastly, the chapter points out that the goal of CED is to create an integrated
CED sector. One way to encourage this is to develop organizations that support and assist groups and individuals interested in initiating CED projects. Credit unions are identified as community-based institutions with the potential to provide support for CED. Chapter III takes a closer look at credit unions. Their structure, history and development are outlined based on a review of the literature and interviews with credit union staff and directors. Their structural compatibility with CED is examined and patterns and trends in their development are analyzed. Chapter IV assesses the level of credit union participation in CED. The evaluation is based on a review of the CED literature, interviews with credit union leaders and CED practitioners and the information on credit union lending. In the last part of the chapter, the kinds of organizational changes that credit unions have undergone in order to participate more effectively in CED are highlighted. Chapter V continues the description of what credit unions are doing to support CED. In this chapter, the CED activities of credit unions are categorized according to four support functions: access to capital; technical assistance; building a sense of community; and contributing to the development of a community’s capacity to carry out CED (community infrastructure development). Chapter VI evaluates the barriers to credit union participation in CED and presents an argument for why credit unions might want to adopt CED as a long-term development strategy. Certain conditions that must be met in order for credit unions to participate in CED are identified. The last section makes suggestions for improving a credit union’s organizational capacity with respect to carrying out CED. Chapter VII summarizes the research findings and draws conclusions about what credit unions can do to support CED and what credit union centrals, government and planners can do to encourage them.
2.1 Introduction

Community economic development has emerged as a response to the economic instability, social disintegration, and powerlessness experienced by many communities. These conditions persist despite local economic development efforts to enrich communities through export-oriented growth strategies and despite upturns in the national economy (Boothroyd and Davis 1991). Government economic development programs have proven no more successful at altering these circumstances (Eberle 1987). The persistence of these trends and the inability of traditional approaches to afford any relief has forced local communities and their residents to find their own solutions (MacLeod 1986). Instead of turning to large private-sector investors or the government to meet their needs, communities are turning inwards, seeking the solutions to economic dependence and community breakdown in community-based initiatives directed towards achieving self-reliance (Wismer and Pell 1981). The term "community economic development" (CED) is used to describe such efforts. The ultimate aim of CED is for the community to develop the human and institutional capacity to decide its own fate and to establish a stable, equitable community life.

CED is a community-based and community-directed process that explicitly combines social and economic development and is directed towards fostering the economic, social, ecological and cultural well-being of communities and regions. As such it recognizes, affirms and supports all the paid and unpaid activity that contributes to the realization of this well-being. CED has emerged as an alternative to conventional approaches to economic development. It is founded on the belief that problems facing communities--unemployment, poverty, job loss, economic instability, environmental degradation and [the] loss of community control--need to be addressed in a holistic and participatory [manner] (B.C. Working Group on CED 1993:2).
This chapter describes some of the characteristics that distinguish CED from mainstream economic development and then identifies the kind of restructuring of the economy CED advocates. Three essential elements of this restructuring are described: diversifying the local economy; creating locally-owned and -controlled institutions; and community-based planning.

2.2 Some Distinguishing Characteristics

CED differs from mainstream economic development in three important ways: the manner in which it defines "the economy;" its relationship to "community;" and the goals it sets out to fulfil.

2.2.1 The Economy

CED represents a fundamentally different way of viewing the economy. In the conventional view, the economy is simply the totality of monetary transactions (Boothroyd and Davis 1991; Wismer and Pell 1981). Economic activity, then is defined as the production and exchange of goods and services for cash (Alderson and Conn 1988). Neither the unpaid work of women, nor the subsidy provided by ecological systems is included in the definition of economic activity.

CED defines economic activity much more broadly, recognizing that "productive activity is not confined to the marketplace" (Alderson and Conn 1988:3). The full range of productive work that takes place in the community, including domestic production¹ and the

¹Domestic production refers to the unpaid work carried out mostly by women in the household. It includes child-rearing, nutritional support and emotional support—all of which enable family members to go to work and school. This work supports the cash economy and props it up during downturns (Alderson and Conn 1988:3).
work of volunteers, is valued under a CED approach and acknowledged as an essential part of the economy. So, the economy envisioned by CED:

encompasses market (monetary and non-monetary) transactions but includes as well production and distribution based on non-market principles of common ownership, sharing, voluntarism and improving productive life even at the expense of efficiency. The distinction between the economy and the community is not clearly drawn. As in the case of the family, social and economic relationships are intertwined (Boothroyd and Davis 1991:16).

This "intertwining" or integration of social and economic objectives distinguishes CED efforts from mainstream economic development efforts.

2.2.2 The Meaning of Community

Another way in which CED differs from traditional economic development is in the importance of "community." In mainstream economic development, the market is the main arbiter of the system. In CED, the "community" is. All economic development occurs within the context of community and only makes sense within this setting. Understanding what is meant by the concept is central to understanding CED.²

²Traditionally community has been defined in relation to a geographic location. In the urban context and in many small towns, communities of interest engage in CED as well. In the latter situation, CED initiatives are designed to address the particular needs and desires of a certain group (e.g., women, unemployed people, garment workers). These groups may well have geography in common in that they inhabit the same geographic place, but the rallying point is something other than the desire to inhabit a particular geographic space. People are brought together not necessarily because they live in the same neighbourhood, but because they face common conditions or problems (as women for example) or hold similar values (as cooperators for example). CED occurs within both geographic communities and within communities of "interest."
The CED literature defines community as more than a location in which economic activity takes place or...a set of relationships that can be structured for maximum collective benefit...[It is] a social/emotional quality whereby people feel connected with each other, are concerned with each other's well-being, and gain satisfaction from cooperating (Boothroyd and Davis 1991:13).

The relationships of trust, friendship, mutual aid, cooperation, respect, sharing and caring characteristic of this kind of community make it possible for social, economic, cultural and spiritual goals to be integrated. Community is an ideal--a condition towards which human beings strive and one which when found provides the context for a very different kind of economic development:

Community is a natural element of human existence, the building block of society. The main purpose behind so much of our earthly struggle is to create community, that human context in which people can live and feel nurtured, sustained, involved and stimulated. Community is the continual process of getting to know people, caring and sharing responsibility for the physical and spiritual condition of the common living space...Community serves to broaden the parameters of identity past the self and toward the other (King and George 1987:217).

Economic development carried out within the context of real community is very different from economic development carried out within the context of the rational "market."

The creation and maintenance of community is a central feature of CED and distinguishes it from mainstream economic development efforts.

2.2.3 Goals

CED differs from mainstream economic development in that it explicitly addresses a much broader range of issues relating to community well-being. CED works on the premise that economic development initiatives have to do more than provide jobs and income. They must also contribute to other community goals such as equity, empowerment, stability, self-
reliance, and ecological sustainability. In other words, economic development has to be a much fuller, more holistic process—one that seeks to integrate social, economic, cultural, and ecological factors (Clague 1986; Alderson and Conn 1988; Boothroyd and Davis 1991; B.C. Working Group on CED 1993).

2.3 Restructuring the Local Economy

The primary objective of CED is to take a measure of local control over the community economy back from the market and the State (Boothroyd 1989:1). The way this is achieved is through the deliberate restructuring of the local economy by people who are part of that economy as well as the development of locally-owned and -controlled institutions (Boothroyd and Davis 1991:12-13).

Building healthy community economies requires strategies that reorganize the structure and composition of the local economy. There are three dimensions to this internal restructuring: diversifying the economic base; the development of institutions that are locally-owned and -controlled; and community-based planning.

Local economic development has moved from almost sole emphasis in the past on export development and stimulation, often with its accompanying specialization of local industry for "efficiency," toward greater emphasis on replacement of imported items with local production, and on diversification of the economy rather than specialization. This requires planned changes in the composition of local industry (Schramm 1987:161).

2.3.1 Diversifying the economic base

One of the goals of CED is stability. An important way to ensure stability is through the creation of a more "diverse" local economy. The following are some of the characteristics of such an economy:
* Increased relative importance of industries producing for the consumption of local residents and local industries;

* A mix of industries producing for diverse export markets;

* A more even distribution of employment among the various classes of economic activity (in particular, more secondary and tertiary industry);

* Emphasis on industries that draw on and develop internal resources.

Diversification refers to a shift in the distribution of employment among the various classes of economic activity (Boothroyd and Davis 1991:11-12). This can be accomplished through import substitution as well as through the development of new export opportunities, always with an emphasis on utilizing and developing internal resources.

Import substitution refers to the process whereby goods and services that are normally imported are replaced with goods that are produced locally (using local materials where possible). The key is to get people to substitute the purchase of imported goods with the purchase of goods produced locally. This can be encouraged through a combination of formal and informal means--"buy local" campaigns, reverse trade shows, local currencies ("money" that can only be spent locally),3 and computer matching. Initially, import substitution may require a commitment from consumers to "buy local" despite increased prices. Many CED enterprises are based on production for local consumption (e.g., organic produce, crafts, cottage industry, local food production).

Another way to diversify the local economy is to expand the number of export markets for which it produces goods and services. This can occur through the:

* Identification of smaller scale production possibilities (e.g., custom mills which are created by technological change or unfilled market niches and which can be taken advantage of by local entrepreneurs (Boothroyd and Davis 1991:11);

3A local currency is a form of exchange that is limited to local circulation within the local economy. As such, it tends to encourage local production for local need.
* Creating secondary and tertiary industries based on primary resources (e.g., agriculture, fish, wood);

"Diverse" also refers to the mix of formal and informal activity present in the local economy. Rather than always meeting their needs through the cash nexus, CED encourages people to fulfil a greater proportion of their needs through their own production and that of their families and friends, and through barter and skills exchange with neighbours. An economy that is rich in these kinds of informal relationships, is far more stable than one where all the community members are dependent on employment in a mill or a mine to be able to meet their basic needs.

2.3.2 The development of locally-owned and -controlled institutions

Regaining local control over the economy through the development of locally-owned and -controlled institutions is a cornerstone of CED.

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4The "informal" economy, also called the "gift" economy or the "love" economy, is comprised of the household sector (which includes domestic production such as child-rearing, nutritional support, and emotional support), the work of volunteers in the community, and barter. Transactions in the informal economy are based on trust, mutual responsibility, respect, solidarity, love, duty, and obligation—the kinds of relationships that CED seeks to reproduce in the formal economy (Ross and Usher 1986).

5Facilitating barter and skills exchange is an important CED strategy. In times when money is particularly scarce (e.g., during economic downturns), the existence of community systems for bartering is an important source of safety and security (and can determine whether an individual survives the bust). Strategies to support barter include: the creation of local currencies; establishment of community gardens; as well as labour banks/exchange. A novel form of bartering known as a "skills exchange" is emerging in many urban areas. It consists of people providing a number of hours of their own skilled labour in exchange for an equal number of hours of others' skilled work (Ross and Usher 1986:65).

6A healthy informal economy contributes to community stability by reducing the impact of macro-economic business cycles on individuals. The institutions of the informal economy provide an infrastructure which enables people to exchange goods and services without the intermediary of money which is either scarce (during downturns) or declining in value (during times of inflation) (Alderson and Conn 1988).
The ideal project is 'local' in all respects: it is owned and managed locally; it is located within [the] community; it provides work--paid and unpaid--for local people; it makes use of locally-available resources--both human and material; and it serves local needs by providing required products and services (Wismer and Pell 1981:5).

CED involves clear differences in the type of economic structure being sought at the community level. Gaining control over local business and investment opportunities through changes in local forms of ownership is part of the desired restructuring. Increased local ownership leads to more stable employment, a retention of resources in the local economy as well as enhanced control over investment and disinvestment (Schramm 1987:162-3). Acquiring local ownership of businesses, financial institutions, and land is an important CED strategy.

A. Businesses

There are three main types of locally-owned businesses: privately-owned, cooperatively-owned and communally-owned. CED encompasses all three. While businesses with co-operative and communal forms of ownership appear to be most compatible with a CED philosophy, there are examples of conventional privately-owned businesses that also fulfil CED goals. Co-operative or communal ownership alone does not ensure compatibility with CED. Indeed unless a business is committed to broader social aims (such as economic justice or empowerment) it remains a fairly conventional form of economic development, albeit a democratic one.7

7The structure of an institution is not the only consideration in CED. What the enterprise does also matters. For example, cooperatives can be organized not only to buffer the individual from the market but also to promote economic justice as when worker cooperatives take into account worker needs and equality in calculating salary scales and working conditions. For example, CRS Workers' Co-operative in Vancouver limits the wage differential between its highest paid and lowest paid workers. In Press Gang Printers, a women's printing and
The types of businesses that are possible under CED covers a broad spectrum ranging from traditional business structures to non-profit enterprises, worker co-operatives, union-operated enterprises and cottage industries (Clague 1986:1,4; UIC 1987:2-3). The factors that distinguish CED businesses from more traditional businesses are the following: local ownership; concern for the welfare of the broader community; desire to empower workers; co-operative management; and the articulation of a broader social vision. The following is a summary of the some of the types of local enterprises encouraged by CED:

**Socially-responsible businesses**

A socially-responsible business is structured like any other traditional small business (i.e., as a sole proprietorship, partnership, or limited incorporation), but is far from traditional in its outlook. In addition to the more typical economic goals of survival and growth, these socially-responsible businesses seek to fulfil social goals as well by contributing to community well-being directly through their economic activity.⁸

The 'Briars' of the Briarpatch Network in San Francisco are good examples of socially-responsible businesses. The owners of these enterprises seek to: make a living at work they love to do; share resources and knowledge; provide the highest quality product or service rather than become rich; live simply and preserve the environment (Ross and Usher 1986:57-59; Dauncey 1988:121-122). The Network itself is a cooperative endeavour. "Members believe fervently that business is a way to serve others. They share their skills, care for each other and have fun together (Dauncey 1988:122)." Another example is the Commonbox Club in England, whose members are people running socially-friendly businesses (i.e., non-exploitative) and are committed to honest trading and good quality. Their aim is to combine business practice with social, ethical and spiritual values (Dauncey 1988:122).
Co-operatives

Co-operatives are locally-owned and operated businesses in which people co-operate to provide themselves with a service. There are many different kinds of co-operatives but all share certain common features: members are owners; each member has an equal say in decision-making; and surpluses are distributed amongst members according to their wishes. Some cooperatives have a strong commitment to community and social outreach, while others follow fairly traditional business practices and ventures, but then reach out to the community with their profits (e.g., by allocating a portion of their surplus to community projects). The degree of member involvement varies considerably often according to the size of the organization (Ross and Usher 1986). See Appendix II for a more detailed description of co-operatives.

Community businesses

A community business is a venture that is sponsored by a non-profit corporation. These non-profit enterprises (as they are also called) generally operate by the same rules as the parent non-profit. The proceeds raised through the commercial activity are funnelled back into the non-profit agency to help defray the costs of service delivery. See Appendix II for more details about this type of business.

Worker buyouts

Worker buyout of an existing firm represents another form of local ownership. These buyouts represent an important CED strategy, particularly when they occur in

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9Appendix II describes non-profit corporations in more detail.
underdeveloped regions of the country. Quarter (1992:107) defines a worker buyout as a situation where workers end up with majority and effective ownership of the company (as opposed to the more usual scenario of managerial buyouts with expanded employee ownership). Buyouts are one way for organized labour to prevent plant closings but they are also very difficult for a union local to undertake. A buyout involves organizing a group of workers to consider playing a role with which they are unfamiliar, one which usually requires a financial investment from them. It also involves doing a feasibility study and a new business plan, as well as acquiring new sources of financing for the operation. Because of these requirements, worker buyouts often require central union and provincial government assistance (Quarter 1992:107).

**Community Development Corporations (CDCs)**

CDCs are local enterprises that are "communally" owned. They tend to be formed in chronically-depressed communities and represent a form of "community" entrepreneurship. In addition to supporting local enterprise development, these organizations also undertake business development of their own, usually with social objectives. Appendix II provides more details about the structure and function of these organizations.

**B. Land**

The development and support of land tenure forms that emphasize community rather than private interests, is an important means of enhancing local control. Land can be communalized through such institutions as the community land trust (CLT), a democratically structured non-profit corporation that holds parcels of land for the collective benefit of the community (Boothroyd and Davis 1991:11). CLTs are more prevalent in the U.S. where
they have been employed by communities to conserve natural habitat (land conservation trusts), to protect farmland and to control real estate speculation and ensure affordable housing.\textsuperscript{10} The land trust movement has a much richer history in the United States where there are over 125 land trusts compared to Canada where there are only a handful. The Canadian experience with democratic forms of land tenure is mostly oriented towards the provision of affordable housing through cooperative housing and co-housing although there is a nascent land trust movement in B.C. (Boothroyd and Davis 1991:11).

C. Financial institutions

The creation of institutions that facilitate the retention of savings in the community for community use is of fundamental importance to CED (Boothroyd and Davis 1991:11).

The building of strong, indigenous communities requires that localities have the capacity and will to keep some locally generated capital from leaving the region and to invest the capital creatively and effectively in the local economy (Kemmis 1990:97-98).

Possible forms of local ownership of capital include credit unions,\textsuperscript{11} and community development loan funds (CLFs).\textsuperscript{12}

\textsuperscript{10}For more information on land trusts see: Gardner and Roseland (1989) and the Fall 1990 issue of the magazine Community Economics (Springfield, MA: Institute for Community Economics) which is dedicated to community land trusts.

\textsuperscript{11}A credit union is a co-operative formed to provide members with access to affordable financial services and a means of pooling capital for investment in the local community. A credit union is a way in which an association of people can raise and keep capital within the community to be used for their own purposes (Ross and Usher 1986:61).

\textsuperscript{12}A CLF solicits investment capital from socially concerned individuals and institutions at concessionary rates and conditions in order to re-lend the funds (usually at below market rates) for community-sponsored business ventures, affordable housing, and other community projects focusing on the needs of low-income residents (Perry 1991:12).
2.3.3 Community-based Planning

One of the most important aspects of CED for any community is deciding which strategies are most appropriate to local conditions, resources and culture. This process is carried out through community-based planning—the act of mapping out a CED agenda.

All community members have an important role to play in planning and implementing a CED strategy, and in shaping the community institutions needed to carry out this type of development. Community members work together to design strategies for economic development that are uniquely fitted to the specific needs and characteristics of the particular community. The CED agenda is determined through a process of community-based planning and decision-making that involves a broad representation of all community interests and entails a much fuller, more complex analysis of community needs and opportunities.\(^\text{13}\)

Community planning is undertaken by a broad range of community members, particularly those who are traditionally excluded with special processes to ensure their meaningful participation. CED requires the creation of new structures and mechanisms to ensure broad-based, active participation in planning.

2.4 Building a Strong CED Sector

Community economic development does not have as its ultimate goal worker co-operatives or land trusts or community loan funds operating in an otherwise unchanged economic system; instead it seeks to extend democratic control to all aspects of the economy.

\(^{13}\)A precise and detailed community analysis is required to discover what needs there are and what assets already exist within the community to help meet these needs. This kind of analysis is essential to the design of a community strategy for development that reflects collective interests and priorities (King and George 1987:226).
For CED to succeed, linkages among democratic organizations must be strengthened at all levels of the economy, across sectors and geographic areas, to provide increased support for local efforts and a political and economic base for confronting the power of established private and public institutions (Schramm 1987:152-3).

Connecting all the separate CED institutions (e.g., land trusts, co-operatives, credit unions, community development corporations, etc.) with one another is an essential CED strategy. Such linkages enhance the individual institution’s ability to survive, but more importantly, they enhance the impact of community-based approaches on the larger economy.

Connection with one another provides mutual support and enhanced common purpose in the face of market and institutional forces pushing them toward competition, reprivatization, socialization of private costs and exploitation of workers, consumers, and communities (Schramm 1987:159).

There are two parts to the process: nurturing linkages within the local economy between local CED institutions and nurturing linkages between similar institutions in different communities through regional and national associations. Whichever the strategy, the goal is to share information and expertise and to build a strong, self-sustaining network of CED institutions and activities.

Building a network of mutually supporting organizations is essential to the success of CED initiatives. A CED enterprise isolated in a sea of private firms has a poor prospects of long-term survival and growth (Whyte 1991:36). If CED initiatives are to succeed, they need support from community-based organizations. There are four factors that are critical to the success of CED. The four are: access to capital; technical assistance; the existence of real community; and community infrastructure development (Pinney 1986; Ketilson et al.
What CED initiatives require are organizations that can offer support in these four areas. This thesis focuses on one particular type of community-based institution with the potential to be a support organization for CED. Credit unions are community-based financial co-operatives. The role that they can play in supporting CED, both in terms of providing access to capital and fulfilling the other support functions is the subject of this thesis.

2.5 Summary

This chapter presents an overview of community economic development (CED), pointing out that CED differs from traditional economic development approaches in three ways. CED defines economic activity more broadly; "community" creates the context within which CED operates; and as an economic development approach, CED seeks to fulfil a much broader set of goals. Next, the chapter shows that restructuring the local economy is a primary objective of CED. Restructuring takes place by diversifying the economic base and developing locally-owned and --controlled institutions, both of which are mediated through a process of community-based planning. Lastly, the importance of building an integrated CED sector with adequate support structures is stressed. This section points out that CED initiatives require assistance from support organizations in four areas: access to capital; technical assistance; community-building and community infrastructure development.

The next chapter introduces the concept of the credit union—a community-based financial institution with the potential to provide CED strategies with this kind of assistance. Their structure, function and lending practices are outlined. Credit unions are attractive to

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14 These four factors are referred to throughout the rest of the thesis as "support functions." All four of these are described in more detail in Appendix III.
CED for a number of reasons: they are locally-owned and -controlled; they are co-operatively managed; and they remain in communities even after other financial institutions have departed thus demonstrating a concern for community well-being. On the other hand, many credit unions are becoming growth and profit-oriented at the expense of a broader social vision—a fact which makes them less likely to provide support to CED initiatives.
CHAPTER III  CREDIT UNIONS

3.1 Introduction

Communities wishing to implement a CED agenda face many challenges—primary among them, a lack of community-controlled investment capital. As pointed out in Chapter I, communities do not lack capital, what they lack is an institutional means of capturing their own savings and investing them in the local economy. Most people deposit their money in private financial institutions with investment policies that do little to benefit local communities. A locally-owned alternative does exist in many communities.

Credit unions are a secure, well-organized community-based alternative to private financial institutions (Ellmen 1989).

Unlike the banks and many trust companies, which have extensive branch systems across the country, credit unions lend savings collected by members of the community they serve to other members of that community. In this way savings are recycled within the community (Ellmen 1989:18).

Credit unions represent an important source of community-controlled investment capital. This chapter describes the structure and organization of these unique institutions as well as the kind of lending they do and the trends that have shaped their development.

3.2 Distinguishing Characteristics of Credit Unions

Credit unions were established to provide loans to ordinary people at a time when private financial institutions ignored the credit needs of all but the most wealthy (Ellmen 1989:26). They have a unique organizational structure that reflects their origins in the co-
operative movement of 19th century England. Credit unions differ from private financial institutions in the following five ways:

* They are co-operatives;
* The depositors and borrowers are also the owners and are called "members;"
* Membership is drawn from an identifiable community, known as a bond of association;
* They are run on a non-profit basis; and
* They have a democratic management structure with a Board of Directors elected from the membership.

Credit unions are co-operatives which means that people pool their money in order to provide each other with cheap credit and financial services. Business is conducted according to the democratic principles of co-operation set down by the Rochdale Pioneers in the early 19th century. These are: democratic control, open and voluntary membership, limited return on capital, return of surplus to members, provision for co-operative education, and cooperation among co-operatives with the goal of forming a co-operative commonwealth. In reality only the first four are still part of the operation of most credit unions. The provision

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1The first credit union in Canada was founded in 1906 by Alphonse Desjardins in Levi, Quebec. The first credit union in English Canada was founded in Nova Scotia in 1932 through the work of the Antigonish Movement. Early Canadian credit unionists emphasized the importance of credit for economic self-determination and espoused a self-help, mutual aid philosophy. The credit union movement in the United States followed a more conservative approach—one that emphasized the provision of cheap credit for private consumption. A detailed history of credit unions is provided in Appendix IV.

2Originally the Rochdale Pioneers established 13 principles. Over the years, as co-operatives have evolved, the number of principles has been reduced to six. The six identified in the text were officially adopted by the International Co-operative Alliance, the world body governing co-operatives, in September 1966. These six principles guide co-operative development the world over (Purden 1980; Axworthy 1981:78). A process to assess and amend these principles is currently underway to culminate in the spring of 1994 (Melanie Conn, personal communication, 12 October 1993).
of co-operative education\(^3\) and the goal of creating a "co-operative commonwealth" have been dropped in most credit union practice.

Credit unions are democratic organizations; they are owned and controlled by the members of the "community" they serve, on a one-person, one-vote basis (Eberle 1987:77). This means that members have equal voting power regardless of the amount of money each has on deposit. People who deposit their money in credit unions control how that money is used—to whom it is lent out, at what price and for what purposes.

Credit unions are built around a common bond—that is, some common feature which serves to bring people together as a "community." There are two kinds of bonds: open and closed. An open bond is based on a geographic community (often called a community bond) whereas a closed bond is based on an occupational, associational, ethnic or religious grouping. Credit unions are required by law to lend within their bond; there are limits on the amount of investment that can occur outside this bond. This is the mechanism by which savings are recycled within the community.

When credit unions were first formed,

the bond was the key to the credit union’s success. It provided the cohesion, and information as to a member’s credit worthiness, so that a loan committee could make good decisions. The bond [allowed] credit unions to lend on the basis of character rather than assets and security (Co-operative Future Directions Project 1982:68).

However for many of the larger urban credit unions the bond has become little more than a formality; it is "not the cohesive force it once was" (Co-operative Future Directions Project 1982:71).

\(^3\)At one time, the Nova Scotia Credit Union Act specified that a credit union had to set aside a percentage of its surplus for educational purposes (Axworthy 1981:107). Such stipulations were removed in subsequent revisions of the Act.
In keeping with their status as co-operatives, credit unions are non-profit organizations that distribute surplus earnings amongst their member-owners. After setting aside reserves and paying interest on shares, the credit union dispenses dividends to its members in proportion to the amount of business each has transacted with the credit union. How the surplus is ultimately distributed is decided by the membership in general assembly.\(^4\)

An important distinguishing feature of credit unions is their democratic management structure. For early credit unionists, member control over policy and practice was of central importance. In designing the first caisse populaire, Desjardins sought to create a management structure that would guarantee democratic control. The result: a tripartite management structure made up of a board of directors, a credit committee and a supervisory committee—all staffed by volunteers elected from amongst the membership.

As credit unions grew in size and sophistication, this management structure was modified to allow for more efficient service (Axworthy 1981:102). Today, the smaller credit unions still retain many features of the original design. The larger ones, however, have adopted a structure with fewer member committees, a more powerful board and a professional staff.

Credit unions are governed by a Board of Directors made up of volunteers elected from the membership. The role of the Board is to set credit union policy and ensure proper management of the organization. Depending on the size of the credit union, the Board delegates responsibility for day-to-day operations to a manager or management team (Eberle

\(^4\)When surplus funds are distributed for other than these kinds of purposes—as when VanCity Savings Credit Union allocated $1m. to endow the VanCity Community Foundation—the allocation is voted on by members at the Annual General Meeting.
The second feature of the management structure is the credit committee whose job is to set lending policy and approve loans. In smaller unions, committee members are elected by the membership. In the larger ones, the committee is appointed by the Board of Directors. In most credit unions, the credit committee delegates responsibility for making loans to a professional loans staff (Axworthy 1981:102, 103; Eberle 1987:79).

The third element of Desjardins' management structure—the supervisory committee—has less importance in the modern-day credit union as operations are too complicated to be checked by a volunteer committee. Inspections are conducted by qualified staff or—as is the case for BC credit unions—by an independent auditor (Axworthy 1981:102, 103).

This section has highlighted the fact that credit unions are locally-owned and -controlled pools of capital that recycle savings within the community and conduct their business affairs in an equitable, democratic manner. Moreover, because they are community-based, credit unions are frequently the only financial institution left in town when communities face economic downturns. For these reasons they seem ideally suited to community economic development. There is one problem, however. Just being a locally-controlled source of capital is not enough. The capital also has to be invested in activities that support the local economy. The next section describes the system that supports every credit union as well as the kind of lending in which credit unions engage.

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5There are 34 communities in B.C. in which the only financial institution is the credit union (Melanie Conn, personal communication, 12 October 1993). In Saskatchewan, the figures are even higher. In over 140 Saskatchewan communities, the credit union is the only financial institution (CUCS 1992:11).

6The capital has to be lent to organizations such as co-operatives, community businesses, non-profits, socially-responsible businesses, and other organizations that are trying to improve the social, economic and environmental well-being of the community.
3.3 The Credit Union System

Credit unions are also attractive to CED because they are stable, secure financial institutions that control significant assets. They have a long history of financial service and are part of a national system that contributes to their stability and effectiveness.

3.3.1 Assets

There are 1,128 individual credit unions in English-speaking Canada serving a total of 4.4 million members through a network of 2,054 branches. Combined assets total $37.3 billion. Their French language equivalents—caisses populaires—are part of a different system. The French system has 1,487 individual caisse populaire and 1,865 branches serving a membership of 5.1 million, the majority of whom reside in Quebec.\(^7\) Combined assets equal $48.2 billion. Together, the two systems service a total of 9.5 million Canadians and represent assets of $85.9 billion (CUCC 1992).

Compared to the banks, individual credit unions are very small. Even the largest credit union in Canada, VanCity Savings Credit Union, located in Greater Vancouver, with assets of $3.6 billion (1993 figures), is a fraction of the size of any of the Big Five chartered banks. The three largest banks in Canada—the Royal Bank of Canada, CIBC and Bank of Montreal—all have assets over $100 billion (The Financial Post, 5 December 1992). The majority of credit unions are much smaller than VanCity and have assets under $1 billion.

One in three British Columbians belongs to a credit union. Membership totals 1.2 million and there are 106 credit unions with 296 branches (BCCCU 1992). Total assets

\(^7\)The Quebec system is entirely separate from the system in English-speaking Canada. Most caisses populaires in Quebec are part of the "Mouvement Desjardins," a highly integrated confederation. This system is referred to only peripherally in the thesis. The language barrier means that there is not a lot of information available in English.
equal $13.6 billion. Credit unions in B.C. range in size from $100,000 to $3 billion in assets. About 50% of all credit unions have assets under $30 million (BCCCU 1993 figures). But an increasing percentage of members belongs to the larger credit unions.

3.3.2 Lending Patterns

Credit unions are primarily consumer and mortgage lenders. In the early days, credit unions lent primarily for "productive purposes" (such as primary production) and for consumer purchases. During the 1970s, credit union membership underwent rapid growth—what amounted to a two-fold increase in total membership—mainly due to a rapid increase in mortgage lending (Co-operative Future Directions Project 1982:71). Mortgage lending is still the primary source of revenue for credit unions. In B.C., fully 72% of loans are for residential mortgages (BCCCU 1992). Commercial lending makes up only a small percentage of the total loan portfolio.

These figures will vary somewhat depending on where the credit union is located. In communities where the credit union is the only financial institution, the proportion of commercial loans is likely to be higher than for the system as a whole (Richard Thomas, personal communication, 3 August 1993).

3.3.3 The System

The strength and stability of the credit union system lies in its three-tiered structure: 1,128 individual credit unions; 8 provincial Centrals and a national trade association and

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8This is higher than for the rest of the credit union movement in Canada. B.C. is dominated by three large urban credit unions from Greater Vancouver where the housing market is very strong (BCCCU 1992).
finance facility, Credit Union Central of Canada (CUCC). Each tier plays a role in meeting the needs of credit union members and ensuring the survival of the movement. The existence of the secondary and tertiary levels helps individual credit unions survive in competition with banks, trust companies and insurance companies (CCCS 1989).

The second tier in the system consists of eight provincial credit union Centrals--the Centrals of B.C., Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Prince Edward Island, and Nova Scotia. The provincial central’s primary role is management of the provincial liquidity reserves and provision of central and investment banking services to credit unions. As a member of the Canadian Payments Association, it provides centralized cheque-processing and other related payment services. As a commercial banker to its members, Central provides short- and long-term loans to individual credit unions. Administrative support services are also offered in such areas as education and training, marketing, communications, service and product development, research, and provincial government relations (BCCCU 1992:39; CCCS 1989). Every credit union in B.C. is a member of B.C. Central Credit Union although this is not necessarily the case for other provinces (Melanie Conn, personal communication, 12 October 1993).

The third tier in the system is the Credit Union Central of Canada (CUCC), formerly the Canadian Co-operative Credit Society. CUCC is comprised of 48 shareholder members with the eight provincial Centrals holding the majority of directorships (16 out of 18). Other financial co-operatives as well as consumer, producer and consumer co-operatives hold the remaining two seats (CUCC 1992:1). CUCC acts as the national trade association and

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9There is no provincial Central in Newfoundland; coordination is provided by a Credit Union Council. As mentioned earlier, Quebec has its own system—"le Mouvement Desjardins."
central finance facility for credit unions in Canada. One of its primary functions is to manage liquidity in the credit union system and to provide liquidity to provincial centrals. Activities in the area of credit union development and coordination include communications, electronic network planning, professional development, national product and service development, and marketing. Another important function of CUCC is liaison with the federal government. CUCC acts on behalf of the credit union system to ensure its fair treatment in all government policies (CUCC 1992; CCCS 1989).

Unlike the banks which are regulated by the Federal government, credit unions are incorporated and regulated under provincial legislation. Every province has its own credit union legislation and regulatory framework. Deposits in credit unions are insured by a provincial deposit insurance corporation (or "stabilization fund" as it is called in some provinces). In the ninety years since the first credit union was founded in Canada, no member has ever lost any money deposited in a credit union in any province (CCCS 1989). In the next section, the regulatory framework for B.C. is outlined.

3.3.4 The Regulatory Framework Governing Credit Unions in British Columbia

In British Columbia, two acts govern the activity and structure of credit unions: the Financial Institutions Act and the Credit Union Incorporation Act of British Columbia. The Financial Institutions Act authorizes credit unions to take deposits and confers on them the ability to lend, borrow and invest. The Act also specifies the amount and types of reserves that credit unions must maintain. Regulations relating to credit union membership and shares are outlined by the Credit Union Incorporation Act (BCCCU 1992:40).

Credit unions are subject to annual inspection by the Superintendent of Financial Institutions, an official of the Financial Institutions Commission (FICOM). The Commission
is established under the Financial Institutions Act and is empowered to regulate credit unions among other financial institutions (BCCCU 1992:40).

The Credit Union Deposit Insurance Corporation (CUDIC) which is administered by FICOM protects credit union members against the loss of their deposits up to a value of $100,000. To minimize the likelihood of claims arising against the insurance fund, FICOM has wide-ranging regulatory and supervisory powers over the operations and practices of credit unions (BCCCU 1992:40).10

One aspect of the regulatory framework governing credit unions in B.C. deserves particular mention given the emphasis in this thesis on community economic development.

**Capital Requirements**

In 1991, the B.C. government adopted the Bank of International Settlements (BIS) formula for calculating adequate capital levels in banking institutions (also known as capital adequacy ratio).11 Under the Financial Institutions Act, a credit union is required to maintain a capital adequacy ratio of 8% of the total value of its risk-weighted assets.12 "Risk-weighted" means that each asset is assigned a risk factor based on the probability that a loss will be incurred on the ultimate realization of the asset. The aim is to ensure that a credit union maintains a capital base adequate to support its level of business activity.

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10 The regulatory body monitors the operations of individual credit unions, provides advice and direction on corrective measures where necessary and, in extreme circumstances, assumes temporary management to rectify problems (Ellmen 1989:24).

11 Capital in a credit union is comprised of retained earnings and equity shareholder investments.

12 Credit unions are now at 7.5% and are working up to 8% for 1994 (Ross Gentleman, personal communication, 15 July 1993).
As for risk-weighting, the BIS formula views government debt and residential mortgage loans very favourably. Canada Savings Bonds receive a risk weighting of zero, while residential mortgage loans receive a risk weighting of 0.5. Commercial lending, on the other hand, is considered very risky and is given a weighting of one (Richard Thomas, personal communication, 3 August 1993). Moreover, when business lending exceeds 20% of the total loan portfolio of the credit union, the risk weighting doubles (increases from one to two). The more a credit union participates in higher risk (e.g., business) lending, the higher its capital requirements. For credit unions that want to participate in commercial lending, these regulations act as a deterrent.

### 3.4 Patterns and Trends in Development

From 1930 to 1960, membership in credit unions grew steadily through the formation of new credit unions. After 1960, the movement began a phase of very rapid expansion. During this phase, growth occurred in a qualitatively different manner giving rise to a pattern of development that dramatically altered the nature of credit unions. In the space of 30 years, credit unions evolved from predominantly rural, informal savings and thrift organizations into full-service, professionally-staffed organizations capable of providing a wide range of financial services.

After 1960 the credit union movement began a trend towards consolidation with growth occurring through the expansion of already existing unions. The actual number of credit unions decreased as individual unions merged to take advantage of economies of scale and technological advances. Branching was adopted as a way to extend credit union services to new groups and new geographic areas. As a result of this approach to development, the
Average size of credit unions increased and large, multi-branch unions became more prominent (Purden 1980:134).

Consolidation was driven by heightened competition in the market for personal savings and loans. After 1961, chartered banks began a major drive to increase their share of the rapidly expanding market for consumer credit (Purden 1980:134). In order to compete with the banks, credit unions had to increase operational efficiency and expand the range of services they offered. This was achieved through amalgamations and branching.

Without exception, credit unions were originally small thrift and credit associations, operated by volunteers with minimal reliance on paid staff. In 1960, the average credit union had fewer than 600 members and its services were usually restricted to share and other deposit accounts, and relatively modest consumer loans (Co-operative Futures Directions Project 1982:69). In the 1960s, credit unions began to change from predominantly small thrift and credit associations to full-service financial institutions. Since then, the range of services offered has steadily increased. Most credit unions now provide a full complement of financial services13 although the smaller ones are not able to offer the range and depth of services that the larger ones can.

The hallmark of credit unions is innovation in the personal finance field. In the past twenty years, the movement has introduced a number of service and product innovations including automated teller machines, daily interest savings accounts, weekly payment mortgages, recognition of 100% of the women’s income in family loans, and open mortgages with early non-penalty pre-payment (Purden 1980; Eberle 1987).

Credit unions operate in an intensely competitive market environment characterized by

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13 These include savings accounts, chequeing accounts, registered savings plans, consumer loans, mortgage loans, safety deposit boxes, and travellers’ cheques.
rapid technological change, escalating consumer demand, and rapid product and service innovation. In this environment, survival depends on being able to provide an ever-expanding array of financial options at lower and lower cost. With the recently completed legislative re-structuring of the financial industry, this is more true than ever.

In the years since the first credit unions were founded, the philosophy guiding credit unions has shifted from a vision of economic self-determination through mutual aid and self-help to one of a more pragmatic nature—the delivery of quality financial services to individual members at the lowest possible cost. In the process, credit unions have become a lot like banks; they "act in a similar way to banks, look like banks and compete with them" (Axworthy 1981).

The American Banking Association argue[s] that credit union members have allowed their institutions to drift away from the ideals of the credit union movement in order to attract more customers, offer more services and compete with the banks. "Many credit unions have expanded far beyond the compact, personal, self-help groups of the past, and have become large, impersonal institutions interested primarily in growth," states an ABA booklet on credit unions (Ellmen 1989:6).

**14**Beslin (1992:2) advises credit unions to be prepared for "consumers who shop around among financial institutions and wade through the pool of financial options [to] find the ones that promise the best return." Consumers have increasingly complex, sophisticated financial needs and choose the financial institution that can meet these needs at the lowest possible cost. If credit unions wish to retain their market share, they must continue to provide the full range of financial options (Beslin 1992:2).

**15**In June 1992, new federal legislation re-regulating the financial services industry passed into law. The goal of the legislation is to foster greater competition in the marketplace. According to Beslin (1992), it has succeeded in this aim. "Combined with the Free Trade Agreement, escalating technological change and a lingering economic recession, re-regulation has created a competitive environment where the emphasis is on survival (Beslin 1992:1)." Banks and insurance companies have emerged from this round the clear winners. New rules allow them to reshape themselves into financial conglomerates—housing under one holding company banking, trust, and securities activities or insurance and trust activities. The effects of these changes are difficult to predict. However, increased corporate concentration is certain to occur, and for credit unions, more intense competition from financial conglomerates that can now provide the complete range of services through a single organization.
In the drive to become more competitive through a process of consolidation, credit unions have lost some of their distinctiveness—a fact that is reflected in three inter-related trends:

* Decrease in the meaningfulness of the bond of association;
* A decline in member loyalty; and
* The erosion of democratic control.

In many of today's credit unions, the bond of association has become almost meaningless. This is particularly true of the large urban ones where the common bond requirement is little more than a formality (Axworthy 1981; Co-operative Futures Direction Project 1982). When the bond of association is diluted through amalgamations and branching, the unique relationship between the members and the credit union is jeopardized. A diluted bond of association does not engender the kind of member loyalty that a closed bond does.

Bonds of association give members a special relationship with their credit unions. The opening of the bonds to encompass a wider membership can weaken this unique relationship. If the uniqueness of the bond is diluted, units may lose the loyalty of their members (OMFI 1986:10).

The very rapid growth of credit unions has resulted in the dilution of the bond with members who do not understand the nature or purpose of credit unions, or the responsibilities of membership.

Many credit union leaders talk about "customers" rather than "members." These are members with limited credit union commitment, and who use credit union services only when they offer an immediate competitive edge (Co-operative Future Directions Project 1982:71).

Member loyalty varies according to the size and type of bond. Credit unions in small, integrated communities and those with a bond of association based on religious, cultural, or ethnic ties generally retain their membership regardless of competition. The
same is often true (but not always) of professional and employee groups. In the case of more loosely affiliated groups, member loyalty is less predictable: increasingly members, particularly from large credit unions take their business to the financial institution that offers the best deal (Purden 1980:135).

The urgent concern of the early credit unionists to have a democratic management structure has also been eroded. As credit unions have grown in size and sophistication, more and more power has been transferred from democratically-elected officers to professional managers. This "professionalization" of the management function is necessary for credit unions to provide the variety of financial options demanded by their members. However it results in a weakened form of democratic control.

[C]redit unions with [fewer] committees have less scope for member involvement and more power given to the directors. It is quite unrealistic to expect annual meetings of members to exercise any real and effective control over the affairs of the credit union, and so the effect of democratic control, theoretically so crucial to credit unions, is reduced when committee involvement is cut back (Axworthy 1981:104).

Melanie Conn, one of the directors of CCEC Credit Union (a small, Vancouver-based credit union—see section 4.3.1) argues that a lack of member participation has always been an issue for the credit union movement (personal communication, 12 October 1993).

The level of member involvement has never been like in a worker co-operative, for example. A credit union is more like a consumer co-operative in terms of level of involvement. The smaller the credit union, the easier it is, but the small ones have problems, too... Member participation in credit unions is more like "representative" democracy.

The struggle to maintain member participation and commitment is one most co-operative organizations face in trying to compete in a capitalist market. The battle is one between democratic process and efficiency. A credit union has to balance the demands of running a competitive financial institution with its commitment to democratic control. The
problem is simply compounded for larger credit unions and is part of the reason for the split that is developing between large and small credit unions.¹⁶

Maintaining adequate participation from an extended and dispersed membership group is difficult. Some large credit unions have modified their control structures to try to address the problem.¹⁷ These efforts have not been very successful (Purden 1980:138). There are two possible reasons for their failure: member apathy¹⁸ and the fact that real decision-making power remains with head office.

The trend towards larger credit unions is likely to continue as competition for the personal finance market hardens. Individual credit unions will continue to face enormous pressures to continue to expand the range and types of services they offer either by growing or by merging with still larger credit unions. These trends towards larger, regional credit unions run counter to CED philosophy. The fact that credit unions are experiencing these kinds of development trends has important implications for their participation in CED—

¹⁶The issue of optimum size is a contentious one within the movement. Increasingly there is a split between large and small credit unions. At one end of the spectrum are the large urban credit unions that have aggressively increased their membership and assets, and the range of services provided. “At the opposite end of the spectrum are numerous small credit unions that rely on a close bond of association and often operate with extensive voluntary input and small staffs (Co-operative Future Directions Project 1982:74).” The split reflects a lack of shared vision as to what emphasis should be given to member development through opportunities for direct participation, as against member services facilitated by larger credit unions with professional staffing.

¹⁷Efforts to link branches to the head office include: recognition of branch committees; election of directors from each branch; joint meetings of branch and head office personnel, as well as members and directors; adoption of a zone system built around the branches with each zone electing a director (Purden 1980:138; Co-operative Future Directions Project 1982:75).

¹⁸Member apathy frustrates efforts to maintain a higher level of involvement at the community level. The membership is frequently not interested in participating in credit union management. Many credit unions have a difficult time even getting quorum at the annual general meetings (Purden 1980:137-8).
issue that will be addressed more fully in Chapter VI.

3.5 Summary

This chapter has demonstrated that credit unions are a stable, secure source of community-based capital. They are co-operatively-owned; democratically-managed; and rooted in "community"—all of which make them desirable from a CED perspective. However, the fact that they have become increasingly growth and profit-motivated means that the pools of capital they control are utilized for the benefit of individuals rather than for broader community purposes. Some within the movement argue that credit unions have always had an orientation towards individuals (after all they were created to provide individuals with access to credit). Nonetheless, the fact remains that credit unions currently concentrate on consumer and mortgage lending and undertake very little commercial lending. So, while credit unions are associated with "community" and are democratic in structure, their investments remain very conservative—which would suggest that credit unions are no more likely to engage in CED than their banking colleagues.

The next chapter will examine the relationship between credit unions and CED more closely. In particular, the level of credit union participation in CED will be assessed and credit unions that are involved in CED identified.
CHAPTER IV CREDIT UNION PARTICIPATION IN CED

4.1 Introduction

This chapter explores the relationship between credit unions and community economic development. In particular, three issues are addressed: the level of credit union participation in CED; the types of credit unions that are involved in CED; and the organizational changes that credit unions have adopted in order to engage in CED.

4.2 Level of credit union participation in CED

In the literature that addresses the subject, there is agreement that credit union participation in CED has been quite limited. Dauncey (1988) points out that although credit unions are community-based and democratically controlled institutions, they have not pioneered innovative community investment policies. Quarter (1992:158) agrees that "for the most part their investments are conventional." In a 1987 study of the credit union movement, Eberle draws similar conclusions. She writes: "With a few notable exceptions, credit unions have not played any more significant a role in community investment than the banks...Nor have they shown much interest in defining a role for themselves in this area (Eberle 1987)." The sense of unexplored potential expressed by all of these authors, is best articulated by Perry (1987:156) when he suggests that "[t]he more ubiquitous general credit unions of Canada still are not viewed as an instrument for business development and remain a sleeping resource for community-based economic development (Perry 1987:157)."

The statistics on credit union lending provide further evidence of the limited involvement of credit unions in CED. As the previous chapter demonstrates, credit unions are primarily consumer and mortgage lenders. Their involvement in commercial lending is
quite restricted—an average of 5-15% of the aggregate loan portfolio for the movement as a whole.\textsuperscript{1} Since there are no figures for "CED lending" per se, commercial lending is used as a proxy. While commercial lending is different from CED lending in many respects (particularly as relates to the types of enterprises that are supported), it shares certain characteristics, such as level of risk, size of loans, and technical assistance requirements, which make the comparison quite appropriate.

Interviews with credit union leaders and CED practitioners confirmed what was found in the literature—that credit unions are not doing a great deal to support CED.\textsuperscript{2} The interviewees were unanimous in their appraisal of the situation. Many of them\textsuperscript{3} felt that, while there may be significant interest in some quarters, the movement as a whole is not committed to CED. At the moment, "[c]redit union interest is...a curiosity and a growing fad rather than a considered commitment" (Stewart Perry, personal communication, 26 July 1993).

When asked whether credit unions could do more to support CED, the unanimous response was, "yes, because they aren't doing anything, now." When asked about "commitment to CED," once again, the responses were very similar:

"Is there commitment [to CED]? In my opinion, no. Is there interest? Certainly, in some quarters (Richard Thomas, 3 August 1993)."

\textsuperscript{1} These figures vary somewhat between credit unions. The percentage tends to be lower in urban areas where the demand for residential mortgages is very great, and higher in rural areas where the credit union may be the only financial institution.

\textsuperscript{2} The interviewees were asked two questions which related directly to this issue. 1) "Do you think that there is any real commitment within the credit union movement to expand the role of credit unions in CED?" and 2) "What role could credit unions play in CED? What is the basis for saying that more could be done?"

\textsuperscript{3} Richard Allen, Melanie Conn, Keith Jardine, Mike Lewis, Stewart Perry, Richard Thomas. See Appendix I for a list of their titles.
Thomas' sentiments were shared by the others, who agreed that interest in CED is localized to a small segment of the credit union sector. In Mike Lewis' opinion, this interest has yet to be translated into concrete action (personal communication, 19 April 1993). His experience to date with credit unions is that there is a lot of interest, talk and good will, but that this has not been translated into tangible activity. Another credit union director, while agreeing that "there is not a whole lot of pressure in the credit union movement for CED," feels that the potential exists:

A certain percentage of people involved in the credit union sector—nominally 20%—would be solid [in their support of CED]. This could be pushed to 30% of credit union people who believe profoundly that we should be involved in the economic well-being of communities—although they wouldn't use the term, "CED." So maybe about 20-30% would be solid [supporters].

But while this "potential" may be present, it has yet to translate into concrete action so credit unions remain a "sleeping resource" for CED.

This is not true of all financial co-operatives. A select group of credit unions in Canada and the United States actively engages in CED. These credit unions have developed innovative investment policies, community outreach strategies, and educational projects—all with the aim of improving the health of the local economy. Not all of these credit unions have the same level of commitment to CED. Some are completely committed to CED, while others devote only some of their resources to CED.

Eberle (1987) identifies two classes of credit unions participating in CED—those with a holistic commitment to CED, and those with a partial commitment to CED. A credit union with a holistic commitment to CED is one whose operations are completely devoted to community economic development. A credit union with a partial commitment to CED is one which directs only a portion of its resources toward community economic development usually in the form of a specific program or project (Eberle 1987:134). Examples of both
categories of credit unions are found in North America. The next two sections of this chapter describe these two different classes of credit unions.

4.3 Holistic Commitment to CED

There are credit unions in Canada and the United States for whom community development is their "raison d’etre." These credit unions are completely committed to CED. They devote a significant proportion of their resources to promoting community development and social justice. The development of healthy and vital local economies is a central goal of their work.

In Canada, there are two such credit unions: CCEC Credit Union and Bread & Roses Credit Union. A third credit union, the Ottawa Women’s Credit Union, while not specifically oriented toward "CED," deserves special mention because for 13 years it has provided financial services to disadvantaged women. In the United States, there is a whole class of credit unions, called community development credit unions (CDCUs), with this broader community development mandate. All of these credit unions are described in more detail below.

4.3.1 CCEC Credit Union

"At CCEC our bottom-line is community economic development."

Community Congress for Economic Change (CCEC) is a Vancouver-based, closed bond credit union with assets of $12 million that specializes in lending to co-operatives, non-profits and small businesses. It employs a staff of nine and offers a range of financial services, including savings and chequing accounts, RRSPs, term deposits, mortgages, as well as personal and business loans and lines of credit (CCEC 1993b). The bond of CCEC is
groups—self-help groups, advocacy organizations, co-operatives, non-profit societies, community businesses, as well as environmental, labour, community and women’s groups. In order to be a member of CCEC, a person has to belong to one of these groups. Having this kind of a closed bond means that members already understand what it is to be part of a community.

The "Statement of Purpose" adopted by the credit union demonstrates its "holistic" commitment to CED. It states, "the purpose of CCEC Credit Union is:

* To promote group solutions to individuals’ problems through the development and maintenance of co-operatives and self-help groups responding to basic human needs…;

* To support and promote responsible action in the areas of social justice, racial and sexual equality, worker democracy, and conservation;

* To develop, support, and promote models for economic organization that foster and further community, consumer and worker control, and membership participation;

* To educate ourselves and the larger community in the areas of finance, economics, and politics, towards the end of obtaining a more equal distribution of material wealth (CCEC 1992)."

CCEC was founded in 1976 by a group of people active in daycare, consumer and housing co-operatives, the women’s movement and the progressive left. These people met, as a Society first, to discuss the problems their organizations faced in raising capital. After much discussion, the CCEC Society decided to create its own financial institution using money pooled from various member organizations.

Because CCEC was established by a community active in CED, the credit union’s main priority is to provide loans to support CED activity. This it does by providing loans to:

* Co-ops, societies, and businesses that produce goods and services needed by the community;
Individuals, especially those not well-served by other financial institutions, such as those on low or fixed incomes, women, marginally employed, and self-employed (Kelly 1993).

Co-operatives and non-profits still receive a below-market rate of interest for their loans.

CCEC is unique among credit unions for the range of commercial loans that it provides, especially given its small size. The credit union has developed a considerable amount of expertise in lending to co-operatives, community businesses, and non-profits. CCEC understands the nature of the businesses it serves, and is able to use this knowledge in evaluating their credit-worthiness. While always being prudent, CCEC tries to be both flexible and creative in granting loans to "groups," in particular. CCEC staff have worked with groups to find security for a loan, where at first there appeared to be none. The business loans officer spends a lot of time discussing business plans and how to prepare them. CCEC staff have also designed special loan agreements to respond to special circumstances, resulting in loans for community facilities and a mechanism for providing housing co-op share purchase loans even when the borrower lacks collateral (Heinemann 1987; Kelly 1993).

The kind of lending CCEC does is changing. The real growth areas are: non-group commercial loans and personal mortgages (Kelly 1991) and reflect changes in the kinds of loan requests received by the credit union. The credit union continues to provide small loans to individuals at a time when most banks will not write a loan for under $5,000. The average commercial loan is $10,000 (Kelly 1993).

4 The credit union now grants non-group commercial loans to partnerships and sole proprietorships (usually derived from groups of which the person is a part), a practice that used to be prohibited. In making this change, CCEC is responding to the needs of a "new breed of ethical entrepreneur" that is emerging from the co-operative community (CCEC 1989).
Over the years, CCEC has had to compromise some of its social goals in order to survive as a financial institution. For example, initially, the credit union did not pay any interest on savings accounts. This gave it a large enough margin to offer its members a lower-than-market rate of interest on their commercial loans. The policy of zero interest was an important principle for many of the founding members.

For many of the early depositors, the way we saw it was that instead of getting financial interest, we were getting social interest...It was necessary for us to accept social interest, not financial interest because otherwise we wouldn't have a credit union available (Melanie Conn, quoted by Heinemann 1987:12).

In 1984, the membership voted to change this practice. While savings were low and market interest rates moderate, members were willing to forego interest payments. However, when interest rates and inflation rose dramatically, and jobs and income became more scarce, members’ started to agitate for change (Kelly 1993). The policy change was very controversial, taking two Annual General Meetings to pass (Kelly 1991).

CCEC is increasingly finding its ability to engage in CED-related commercial loans challenged by the competitive market in which it operates. The credit union has to struggle to maintain its commitment to community investment in the face of demand from its members to provide more, and cheaper financial services. CCEC also finds the commercial lending limits set by the government very onerous.

4.3.2 Bread and Roses Credit Union

"Banking for Social Change."

Bread and Roses Credit Union (B&R) located in downtown Toronto is a financial institution whose primary purpose is to promote social change and community economic development. It has assets of $8 million dollars, a membership of 1493 (individuals, groups,
and businesses) and employs a staff of 7. The bond is limited to individuals and groups involved in social change in Metro Toronto. Bread and Roses offers a broad range of services from savings and chequing accounts to personal and business loans and term deposits and mortgages.

B&R was founded in 1978 by individuals and groups in the anti-apartheid and peace movements who disapproved of the investment policies of the banks, particularly with respect to South Africa and the arms race. Tired of criticizing bank policy without taking concrete action themselves, they decided to create an alternative financial institution that would ensure their money was used to promote cooperative enterprise, ethical business activity and progressive social action.

The credit union has both a vision statement and a mission statement (from brochure titled, "Bread & Roses Credit Union...a Financial Co-operative for Social Change"):  

**Vision Statement.** For Bread and Roses to be a viable member controlled cooperative financial institution where the deposits of the membership enable the credit union to serve member groups actively engaged in social change.

**Mission Statement.** To facilitate social change by providing banking and credit support for member groups through the operation of a strong credit union that receives members' deposits, makes loans and meets members' other banking needs.

Community economic development is central to the work of the credit union. B&R is committed to supporting "locally controlled businesses that provide meaningful work and meet the needs of the community." In order to do this, the credit union has adopted CED as a program focus. The three goals of the CED program are:

1. To foster new, locally controlled businesses;
2. To help local community controlled businesses to network;
3. To encourage members of the community to support co-operative and small progressive businesses.
The credit union has helped worker-owned co-operatives with equity investment loans, groups with group loans, and small businesses with loans of up to $15,000. B&R has also co-ordinated a promotion campaign to encourage people in the community to support co-operative business. In addition, the credit union is a founding member of the "Toronto CED Network." The credit union has also established a program, "Co-op 10,000" specially designed to meet the needs of the co-op and non-profit sectors.

Bread and Roses has had to make a number of compromises to remain competitive. Share capital has had to rise and fees, too making it more difficult for low-income members. According to Tony Farebrother, the General Manager, the issue is quite complex and depends on a person’s perspective. For example, some people would see making car loans and home ownership loans; offering a credit card; offering reduced rate loans for cash security and requiring some form of security on loans, as compromises (Tony Farebrother, personal communication, May 1993).

4.3.3 Ottawa Women's Credit Union

"Promoting the economic advantage of women in the Capital region."

So what [we] do is not just banking. It has a social purpose; it is important and it is wonderful to be associated with it.

- Holly Hughes, Manager.

The Ottawa Women's Credit Union (OWCU) has an asset base of $4.5 million with 1800 members, many of whom live on low or fixed incomes. Membership is only open to women. In order to join, a woman must be a member of the "Ottawa Women and Money" study group whose mandate is to educate women in financial matters (Holly Hughes, personal communication, 29 July 1993). The mission statement of the Ottawa Women's
Credit Union is to "promote the economic advancement of women in the National Capital Region by:

a) being a high quality profitable supplier of competitive financial services which meet the needs of our members; and

b) providing severely employment disadvantaged women with the skills needed to obtain and sustain long term employment, predominantly in financial but also in other employment sectors; and

c) being a progressive employer of women (Annual Report 1990/91:2)."

The credit union was chartered in 1980, growing out of an effort by what was then the Ottawa Tenants’ Council (now the Ottawa Council for Low Income Support Services - OCLISS) and the Social Planning Council. Women meeting from these two groups identified a two-fold need:

a) To provide financial and educational services to low-income women (women on family assistance, welfare, income assistance, UI, disability pension, etc.); and

b) To retrain them so that they could get off income assistance (Holly Hughes, personal communication, 29 July 1993).

They felt that these needs could best be met by creating a financial institution based on the philosophy of women helping women become financially autonomous—and chose a credit union as the vehicle. The credit union would make small, short-term loans to women on fixed incomes and provide both financial information and counselling designed to encourage financial independence. On-the-job training for low-income women ready to re-enter the labour force would be an integral component of the operation (Pamphlet titled, "Ottawa Women’s Credit Union," no date).

From 1978 to 1980 organizational and planning work was carried out with assistance from the Ottawa Tenants’ Council, Ottawa Community Credit Union, the Federal Business Development Bank, the Civil Service Co-operative Credit Society Limited, and Credit Union
Central of Ontario (Pamphlet, as above). In September 1980, the credit union opened its doors for business.

From the outset, the credit union has received government funding, first under LEAP (Local Employment Assistance Program) and then under the Canadian Jobs Strategy. In the first year, the OWCU received $200,000 to help set up a training program for low-income women re-entering the labour force (called the Ottawa Women’s Financial Training Project - OWFTP). Funding for the project has continued to present day. The credit union expects to receive $440,000 in funding for 1992-93. This program grant represents just under half of the total income of the credit union (Pamphlet, as above).

When it started, the OWCU provided only minimal services such as savings accounts and personal loans. But with the continued support of the federal government, operations have been expanded so that the credit union now employs five full-time staff and offers most of the same services as other financial institutions (Pamphlet, as above). This full-service, professional business environment serves the training project by providing the venue for on-the-job training in all areas of the financial services industry.

There are two aspects of its work that make this credit union unique: the training program for low-income women; and the emphasis on service to women, and in particular, low-income women. OWCU trains 25-27 women each year in five different areas of the financial services industry, provides life skills and personal counselling throughout the training period and then helps them find employment once they finish their training. The Ottawa Women’s Financial Training Project is described in more detail in Appendix V.

The Ottawa Women’s Credit Union provides services to women on fixed incomes which are generally not available from other financial institutions. For example, women on fixed incomes can apply for loans of $250 and under. Payments are spread out over a six-
month period and subsequent loans of up to $500 are available upon successful repayment of the first loan. Applicants must be members for a period of six months, have a savings account and deposit a minimum of $10 per month prior to applying. In recent years, the credit union has had to tighten up its eligibility requirements in response to an unacceptable level of loan default.

Offering the training program has negatively impacted the competitiveness of the credit union because it cannot maintain the highest quality of service. The credit union was set up to offer financial services and to operate a training program. The fact that OWCU does training interferes with its ability to provide the satisfactory service. The trainees are in for such a short time—36 or 40 weeks. They leave just as they are becoming proficient. Providing high quality service is difficult under circumstances where the service is being delivered by trainees. Many members appreciate this other dimension of the credit union and are very patient. Others eventually tire of the quality of the service and take their business elsewhere. This is a compromise that the Ottawa Women’s Credit Union has had to make to stay faithful to its mandate to provide training (Holly Hughes, personal communication, 27 July 1993).

Another serious concern for the credit union is the fact that government funding is likely to run out in August 1994. Funding is assured until then, but after that the situation is very uncertain. The federal government has said that the dollars will no longer be there for the kind of training OWCU does. The withdrawal of government assistance places the training program in jeopardy because the credit union does not generate enough revenues on its own to maintain the level of service required to sustain the project. The government grant has allowed OWCU to offer a much broader range of products and services than would otherwise have been possible given its asset size and membership. If the credit union wishes
to continue to provide training to low-income women, it will have to find another sponsor or find some way to expand its asset base. OWCU is currently grappling with identifying the options open to it once government funding is withdrawn (Holly Hughes, personal communication, 27 July 1993). The credit union is also facing a human rights challenge to its right to exclude men from its bond of association. For more information on this and other challenges facing the credit union see Appendix V.

4.3.4 Community Development Credit Unions

In Canada, there are only a few credit unions with a holistic commitment to CED. In the United States, the number is much greater. There is an actual subset of credit unions called community development credit unions (CDCUs) that promote community development and social justice.\(^5\) These CDCUs are dedicated to providing financial services for poor people and/or to promoting community-based economic development in their neighbourhoods (Isbister and Thompson 1992:6-7). And they are motivated by a vision of community economic empowerment (Swack 1987:91).

In many of the low income rural and urban areas, there are no other sources of credit available. So a CDCU really is the bedrock of community development, creating employment opportunities and allowing people to accumulate wealth and move out of poverty (Symons 1993).

Nationwide, there are about 300 CDCUs.\(^6\) They reflect the full geographic, ethnic

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\(^5\) The CDCU movement has received a major boost from the U.S. President, Bill Clinton. CDCUs have been recognized as one of a class of institutions, called "community development financial institutions" (CDFIs), that the President and Senate are interested in fostering.

\(^6\) Because CDCU is not an officially defined term—it is a label voluntarily adopted by some credit unions—their number is difficult to assess. Isbister and Thompson (1992:8) estimate that there were approximately 300 in 1992. This figure was arrived at by adding up the number of "limited income credit unions," (a term used by the National Credit Union Administration to identify institutions serving a predominantly poor membership), the remaining Office of
and racial diversity of the United States. Some are based in rural black communities in the southern states, others are located in the low-income neighbourhoods of large urban centres in the northeast and midwest. Still others serve ethnic groups such as the Navajo and Hispanics (Gordon 1987a).

CDCUs provide consumer banking services that may not be locally available to their members, as well as personal loans for consumer goods purchases, home rehabilitation, car purchases, and agriculture. A growing number of CDCUs are making development loans for small business expansion and start-up, home purchases, and housing rehabilitation (Ad Hoc Coalition of CDFIs 1993). Studies show that CDCUs are having a considerable impact in poor communities (Donovan 1987; Isbister and Thompson 1992).

CDCUs range in size from less than $100,000 to more than $20 million in assets. On average, they are smaller than ordinary credit unions. In 1991, the average limited-income credit union, as defined by the National Credit Union Administration (NCUA), had $1.8 million in assets, whereas the average for all credit unions was $17.4 million (Isbister and Thompson 1992:10). In addition, the average income of the members is significantly lower, with over 50% of members earning low incomes in the range of $18,000-$20,000 for a family of four (Pamphlet titled, "Questions and Answers about the NFCDCU").

Running a CDCU is very costly. Because they serve low-income communities, expenses are higher in CDCUs than in average credit unions. Yet, CDCUs are able to

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Economic Opportunity (OEO) credit unions, some church-sponsored credit unions in minority communities and those credit unions that adopt the label "CDCU" directly.

7 There are a number of reasons for the relatively high expense ratios. They typically have to spend more staff time dealing with members because fewer of their transactions occur in computerized payroll deduction form. In some cases CDCUs find it more expensive to determine the credit-worthiness of their borrowers and to process their loans. The most fundamental reason, however, is the fact that their members are poor, with relatively low
survive in communities where banks and savings and loans find it unprofitable to operate (Isbister and Thompson 1992:87).

Community development credit unions employ a number of strategies that make it possible for them to serve disadvantaged communities. Many CDCUs find ways to bring outside funds into partnership with the resources of their own low-income communities. There are three ways that this is done: non-member deposits; grants; and a field of membership that includes middle-income people (Isbister and Thompson 1992:87). Different credit unions adopt different strategies.

Normally, credit unions can accept deposits only from members. However, an Act of Congress in 1974 established the category of "limited income credit union," and allowed credit unions so designated to accept deposits from non-members. This provision allows CDCUs to solicit deposits from foundations, religious organizations and other social investors (Isbister and Thompson 1992:87). "Non-member deposits" as they are called, expand the ability of a CDCU to lend to its members, and are often critical to its financial stability. Federal regulations restrict non-member deposits to 20 per cent of member shares (Isbister and Thompson 1992:94).

A second way to bring in outside resources is through grants. In some cases the grants consist of subsidies from a sponsoring agency, while in other cases they come from foundations and other agencies (Isbister and Thompson 1992:88).

The third principal way in which a CDCU can bring outside resources into partnership with poor people is to combine middle- and low-income people in the same field savings balances. (The more savings a person has, the greater her/his contribution to the income of the credit union as savings provide the resources to be relent which then generate income.) (Isbister and Thompson 1992:78).
of membership. If the credit union can attract sufficient middle-income members, their savings can help to support the more expensive work that the credit union does with poor members (Isbister and Thompson 1992:88). In their study, Isbister and Thompson (1992:92) found that the CDCUs that were able to make this strategy work were those in which middle-income people had non-economic reasons for joining the credit union. In one case, members were attracted by the political ideals of the credit union; in another case, by the fact that the credit union served Asian immigrants. In the absence of these common purposes8, bringing different income groups together in a single credit union is very difficult (Isbister and Thompson 1992:92).

Most American credit unions concentrate on consumer lending and do very little business lending. The National Credit Union Administration, the body that charters and supervises federal credit unions, reinforces this historical pattern, strongly discouraging business lending. In 1992, the agency adopted a more stringent set of rules governing business lending. The regulations lower the maximum size of a business loan and impose more onerous record-keeping and reporting procedures. These restrictive loan regulations are particularly onerous for the small CDCUs, many of which see business lending as an important component of community development, leading to both income and jobs (Isbister and Thompson 1992:69).

While it is appropriate for the NCUA to regulate business lending, the changes adopted in 1992 have the effect not of improving the quality of business lending, but of reducing the amount of lending. The regulations inhibit the ability of CDCUs to promote economic development in their communities. Yet, CDCUs have shown that they are capable

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8 By this I mean an emotion or sentiment that brings people together as a "community," that acts as a glue, despite economic differences.
of making sound business loans if they choose to develop expertise in this area (Isbister and Thompson 1992:93).

The National Federation of Community Development Credit Unions (NFCDCU) is the non-profit support organization for CDCUs. Founded in 1974, the Federation is the national advocate for the CDCU movement on regulatory and policy issues. It also raises capital from social investors and channels it into local CDCUs. Through its "Capitalization Program for CDCUs," the Federation has assembled more than $4 million in low-cost deposits from the private sector, particularly foundations, churches, and banks. This money is provided to members in the form of "non-member deposits," usually at rates far below market, and for terms of 3-5 years. In addition, the NFCDCU provides training and management support to CDCUs. It also assists local groups in organizing new credit unions, particularly in communities where banks have closed. The Federation has a membership of nearly 100 CDCUs in 35 states, ranging in size from $25,000 to $25 million in assets (Pamphlet titled, "About the Federation").

In addition to the support provided by the NFCDCU, there is also a $6 million federally-funded revolving loan fund which provides CDCUs with low-cost capital. The NCUA makes long-term, low-cost loans of up to $200,000 to individual credit unions. Overall, CDCUs are making significant contributions in the communities they serve. Their impact is felt on a wide range of fronts—from generating and reinvesting savings in low-income neighbourhoods, to making loans that are pivotal to the creation of an estimated 16,000 to 17,000 jobs (Donovan 1987:39).

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9 President Clinton has appropriated $354 million to support the development of community development financial institutions (CDFIs). The NFCDCU is hoping that a portion of this money will be earmarked as equity capital for new and existing CDCUs, thus allowing some to stabilize and others to grow. An infusion of equity would also be a good way to calm fears among regulators about the riskiness of small business lending (Symons 1993).
4.3.5 Self-Help Credit Union

North Carolina's Self-Help Credit Union (SHCU) is a very different kind of CDCU: it does not have a geographic bond; it operates throughout the entire state; its borrowers are different from its lenders; and it focuses entirely on commercial and mortgage lending for non-traditional borrowers (women, low-income individuals, minorities, co-operatives, and non-profits). The credit union has assets of $33.6 million and membership is open to anyone who belongs to its non-profit sponsoring organization—the Centre for Community Self-Help (CCSH). It has branches in four communities in North Carolina none of which offers any retail banking services. Its clientele is mostly low-income, first-time borrowers.

The credit union is able to do this kind of lending because it enjoys a lower cost deposit base than many other depository institutions, including other credit unions. Institutional (churches, foundations) and individual social investors deposit money at the credit union and often accept a lower-than-market rate of interest (Waddy 1990/91:3). In order to save all of its resources for lending, SHCU decided early on not to offer any retail banking services. The provision of financial services to low-income people is costly and detracts from a credit union's lending capacity. Consequently, Self-Help borrowers and savers are almost two entirely separate groups—the former consisting of primarily low-income individuals and the latter of "socially conscious" middle to upper-income individuals and institutional investors (Southern Growth Policies Board 1991:17).

The kind of community development lending that SHCU does is very costly and generally more risky than allowed under credit union regulations. SHCU raises the capital

10 "Economic Development Deposits" are certificates-of-deposit earning lower than market interest rates—generally 2-4%. These deposits represent a vehicle to provide support to the credit union from various individuals and organizations. The social investor negotiates an appropriate interest rate with the credit union.

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needed to support its community development lending objectives in two ways:

* State regulators have recognized a special class of membership shares that can be used to reduce loan losses.\(^{11}\)

* The parent organization, the Centre for Community Self-Help (CCSH) raises capital from foundations, institutions and individuals which it then uses to help the credit union (The Woodstock Institute 1991).

SHCU and the larger non-profit community development banking institution of which it is a part are described in more detail in section 4.5.1.

4.4 Partial Commitment to CED

While CED is a topic of growing interest in the Canadian credit union system, there has been little support for the establishment of specialized CDCUs like those in the United States. Nor has there been any effort to emulate the work of CCEC, Bread & Roses, and the Ottawa Women’s Credit Union. While these institutions are thriving, and provide excellent public relations value for the whole credit union system, few other credit unions have followed their lead in terms of developing a "holistic" commitment to CED (Gordon 1987a).

The efforts of most credit unions involved in CED tend to be more modest—usually comprised of a single program or initiative. But within this category of credit unions with a partial commitment to CED, there are some that have begun to re-interpret their mission to include support for community-based social and economic development (Gordon 1987a).

Three examples of this kind of credit union are described below.

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\(^{11}\) Essentially what happens is that Foundations place money on deposit that they recognize as non-withdrawable. These deposits are counted as equity by the auditor which has the net effect of increasing the capital base against which the credit union can lend (Jim Key, personal communication, 6 August 1993).
4.4.1 VanCity Credit Union

VanCity Savings Credit Union in Vancouver is often cited in the CED literature as one of just a handful of Canadian credit unions that is involved in CED.\(^\text{12}\) However it differs from the credit unions described in the previous section in that it does not have a holistic commitment to CED.\(^\text{13}\) Its primary goal is to provide competitive financial services at the lowest possible cost to residents of the Lower Mainland. It is very strongly motivated by growth and profits. This being said, however, in the last 10 years, the credit union has begun to identify a role for itself in community economic revitalization.

VanCity was founded in 1946 in response to redlining by the banks in the east end of Vancouver. In the early years, its major contribution was in providing mortgage loans for area residents. Over the next 35 years, the credit union grew steadily and acquired a reputation for effective and low-cost financial services. But by the early 80’s, the credit union was also involved in speculative real estate deals and extensive lending outside the Lower Mainland (Perry 1993).

In 1983, starting with the election of an NDP MLA to the Board, the credit union embarked on a process of re-orientation and change that began with a return to lending focused on the Greater Vancouver region. Over the next three years, a group of dissidents from the membership organized a joint slate--the Action Slate--and obtained majority control of the Board. Their goal was to direct the resources of the credit union into local community

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\(^\text{12}\) Authors such as Mungall 1986; Dauncey 1988; Quarter 1992; Lewis 1993; and Perry 1993 have written about VanCity.

\(^\text{13}\) VanCity also differs in size. It is the largest credit union in Canada with $3.6 billion in assets, 200,000 members and 27 branches. This places it in a category all of its own. While it has many more resources upon which to draw, it also has a large, bureaucratic corporate structure that responds slowly to change.
action and to make the institution responsive to the full range of community needs. This common goal has led the Board to adopt such innovations as the Ethical Growth Fund, the VanCity Community Foundation, the EnviroFund, and the VanCity Community Investment Deposit program, all of which are described in more detail below. Most recently, it adopted a new mission statement. The credit union has also developed a "Statement of Corporate Social Responsibility" (CSR). The CSR is an explicit declaration of VanCity's commitment to the broader community. It provides credit union Board members and staff with a framework for making decisions about which community initiatives to support (Pieter van Gils, 21 March 1994).

But in spite of all these innovations, Board members and senior management staff express concern about a lack of vision, direction and clarity. Board chair Tim Louis observes, "I am not certain that we have an agenda now. VanCity will continue to be progressive, but will we be creative? We've achieved the original agenda, but now maybe we need to really turn to the question of CED." He wonders whether either board or staff "have a clear picture of CED and VanCity's role in it" (Perry 1993).

Community-based organizations would probably agree. VanCity suffers a lack of credibility among progressive, community-based groups. These groups criticize the institution for being too much like a bank--large, impersonal, bureaucratic, and concerned

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14 The new mission reads: "Vancouver City Savings Credit Union is a democratic, innovative, and ethical provider of financial services to its members. Through strong financial performance, we serve as a catalyst for the self-reliance and economic well-being of our membership and community" (Pieter van Gils, personal communication, 15 July 1993).

15 It states: "VanCity serves as a catalyst for the self-reliance and economic well-being of our membership and community. Our credit union looks for opportunities to promote the economic development of our community. We support community well-being by funding initiatives that advance positive social change".
more with growth and profits than with the real needs of the community, particularly its neediest members. However, VanCity does demonstrate that a major credit union can undergo a fundamental policy shift/change—-from no commitment to CED to a partial one.

4.4.2 Caisse Populaire Evangeline

The Caisse Populaire Evangeline is frequently cited in the literature for its involvement in CED, particularly for its participation in co-operative development. During the 70's and early 80's, under the direction of a visionary general manager, the credit union helped to establish a number of worker and consumer co-operatives in the Evangeline region. Loans were made through the caisse populaire and equity investments were made through its subsidiary, the Baie Acadienne Venture Capital Group (discussed in more detail below).

The Caisse Populaire Evangeline is located in a French-speaking region of Prince Edward Island, called Evangeline. For the size of its population, the region boasts a surprisingly large number of co-operatives, a fact which has earned it the title, "the uncontested co-op capital of Canada (Arsenault 1988)." Within a small rural 25-km. area, consisting of three villages totalling 2500 people, there is an extensive system of co-operatives (Quarter 1992). The range of activities offered by the 15 co-operatives is impressive.16

The caisse populaire is the primary financial institution (there are no banks) in the area. It has 3,400 members and assets of $16.2 million. Being the only financial institution

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16 There is a wide variety of consumer, producer and worker co-operatives including: a fish-processing plant; a supermarket/mall; a health clinic; a seniors' home; a tourist facility (Acadian Pioneer village) including a hotel, restaurant, theatre and tour company; a handicraft enterprise; a forestry business; a potato chip producer (Olde Barrel); a cable television service; a funeral service; and a youth co-operative (Quarter 1992:104).
in the area, it has the accounts of 90% of the businesses and a commercial loan portfolio of 30% (10-12% of which is for primary production--fishing and farming) (Paul Richard, personal communication, 18 May 1993).\textsuperscript{17}

But unlike the impression given in the literature, the Caisse Populaire Evangeline does not have a holistic commitment to CED. The present manager sees the mission of the credit union as providing low-cost financial services to members at the lowest possible cost. He has not continued the interventionist co-op development practices of his predecessor. Since the departure of Leonce Bernard (who left to become the provincial Minister of Community and Cultural Affairs in 1986) the credit union has been minimally involved in co-operative development. However, it does continue to do a lot of small business lending (30%).\textsuperscript{18}

Moreover co-operatives receive a 0.5% rebate on the interest rate charged regular businesses.

The change in orientation of the Caisse Populaire Evangeline illustrates the effect vision and leadership can have on the agenda of a particular credit union. Under the management of Leonce Bernard, the credit union was more pro-active in pursuing co-operative development. Bernard appears to have shared Fr. Coady's vision of a "co-

\textsuperscript{17} Evangeline has a much higher level of commercial lending than the credit union system as a whole (even when loans for primary production are excluded). This illustrates a point made by Richard Thomas of B.C. Central Credit Union (personal communication, 3 August 1993). Thomas suggested that small business and micro-enterprise lending has become part of "the bread and butter lending" for credit unions that are the only financial institutions in rural areas of B.C. This is a very interesting supposition--one that needs to be verified through further research.

\textsuperscript{18} The new manager, while he has not followed Bernard's lead, does see the importance of supporting the local economy. According to Richard, Evangeline assists local businesses more than a bank would by taking on riskier commercial loans. Evangeline is willing to take more risks because it knows that if a business is successful, the community benefits (Paul Richard, 18 May 1993).
operative commonwealth," using the resources of the credit union to further this goal. But perhaps Evangeline will become more active again. In March 1993, P.E.I. Central accepted a motion to explore how credit unions can become involved in community development. A committee, made up of representatives of every Island credit union and staff from Central, has been formed to study the issue (Paul Richard, personal communication, 18 May 1993).

4.4.3 Saskatchewan Credit Unions

In response to the changes in the Saskatchewan economy (urbanization and disintegration of the agricultural base), credit unions in the province are re-interpreting their roles in communities. Saskatchewan credit unions are realizing that they have an important part to play in revitalizing local economies and are searching for ways to expand the community economic development aspects of their work.

Credit unions are a vehicle for communities developing. This was more evident when the Prairies were first settled. As people changed and communities evolved, the credit union was relegated to being "the bank." As the situation has changed [worsened] again, the direct link between the credit union and the [health of the] community is more evident again (Jo-anne Ferguson, personal communication, 13 August 1993).

Many Saskatchewan credit unions are learning that they must actively support the local economy.

The credit union is not just there to receive deposits and cheques; it is also taking the initiative in helping the community. There is no point in a credit union providing business services and business loans, unless it helps to create an environment in which small business can grow and prosper. So credit union employees, not only are they giving loans, but they are out there trying to generate economic activity--providing assistance with business plans, bookkeeping, etc. Not just taking orders, but actually out there stimulating development. This role is very important. In many communities, the credit union is the last business in town. So its efforts to stimulate activity are very important (Jo-anne Ferguson, personal communication, 13 August 1993).

They are being encouraged/supported in this by work that the provincial central is doing:
research on the nature of community economies in Saskatchewan and community
development workshops. Both of these are discussed in more detail below.

4.5 Organizational Development and Capacity-Building

A credit union’s capacity to engage in CED is determined by its financial and human
resources and its structure. Many credit unions lack the institutional mechanisms and human
resources to participate in CED. This section explores the organizational changes that some
credit unions have adopted in order to participate more effectively in CED.

4.5.1 New Institutional Arrangements

A number of credit unions have responded to the challenges CED poses by
establishing new institutional structures to carry out their CED work.

A. Subsidiaries

A number of credit unions have established separate, non-depository entities to carry
out their CED work. So instead of being situated within the standing structure of the credit
union, certain CED activities are lodged in independent units, called subsidiaries or affiliates.
Subsidiaries are separate legal entities with their own boards and distinct financial
arrangements. By locating its more risky activities in a subsidiary, a credit union insulates
itself from excessive risk (Perry 1993). Credit unions are federally-insured depository
institutions and thus are required by law to be prudent with members deposits. Segregating
higher risk or non-banking activity in subsidiaries is a common practice in the banking
industry. The practice allays any fears among both members and the regulatory agencies, while still allowing the credit union to be experimental and innovative (Perry 1993).

There are other benefits to establishing a subsidiary: it enables a credit union to concentrate energy and resources on a particular function and to assemble different skill sets; and it provides a means of pooling resources to pay the costs of CED lending (Perry 1993).

Subsidiaries come in a variety of sizes and forms. The five described below are all different and serve different functions.

VanCity Credit Union

VanCity credit union has two subsidiaries that are involved in CED: the VanCity Community Foundation (VCCF) and VanCity Enterprises Ltd (VCE). The VCCF was created specifically to carry out CED work while Enterprises was created to do real estate development, only a small part of which is CED-related.

VanCity Community Foundation

At its annual general meeting in 1989, VanCity Credit Union created the VanCity Community Foundation (VCCF). VCCF is a charitable organization whose purpose is "to be a catalyst for the growth and empowerment of disadvantaged groups and communities served by VanCity..." It undertakes activities in four program areas: innovative solutions to housing affordability; team borrowing for self-employment; non-profit enterprise; and CED.

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19 On a conceptual level, the issue is one where the capital a bank or credit union is required to hold (CAR), is based on the banking business that it does. If a bank is involved in other, more risky activities, such as real estate development, it likes to segregate the activity in a separate institution so that its capital requirements are not affected (Ross Gentleman, 15 July 1993).
Assistance is provided through the provision of no-interest and low-interest loans; skills transfer and skills brokerage; equity enhancement; joint ventures with private or public sector organizations; and endowments and/or grants. The VCCF is capitalized by an annual donation amounting to 2/7 of the share dividend of the credit union membership. To date, the credit union has contributed a total of $2.5 million to the permanent endowment fund for the Foundation (VanCity Credit Union 1992a).

In 1992-3, the VCCF was re-structured. There is only one board now, and it functions as a partnership between the Foundation and the community groups with whom the organization works. The Board is bicameral and meets quarterly. The first half of the Board (the statutory board) is comprised of VanCity Directors and makes all the administrative and legal decisions. The second half of the Board is made up of community representatives of those organizations with whom VCCF has chosen to partner, five in total. These people then join the meeting and the two together make decisions about the activities of the Foundation. "This is what is so new and exciting--community partners sit on the Board as decision-makers (David Driscoll, personal communication, 15 July 1993)."

The re-structuring has been accompanied by a re-thinking of the Foundation's mandate. In the first year and a half, there were immediate activities in all four program areas, although the projects tended to be scattered and fairly limited in scope and reach. In February 1992, the Foundation Board decided to make affordable housing the focus of the

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20 One of the Foundation's directors explained that "[1992-93] was a period of transition for the Foundation, largely driven by a change of staff and by declining interest rates which meant that there were fewer dollars to give out. When this scenario became apparent, the Foundation had to do a lot of thinking, retrenchment and consolidation. The new director spent a good deal of his time and energy in the first year on an internal reorganization of the structure of the Foundation; it was essential that a new structure be devised that would reduce administrative overhead."
There are three components to this mandate: building safe homes for women and children escaping violent situations, independent living, and land trusts for affordable housing (David Driscoll, personal communication, 15 July 1993). With the Foundation’s re-orientation to affordable housing, there is tremendous potential for some very interesting cross-programming with the VanCity Community Investment Deposit Program, VanCity Enterprises (see below), and the Foundation.

One problem with which the Foundation has had to grapple is the fact that CED does not fit under the Revenue Canada definition of charity. Because the Foundation is a charitable organization, it may legally offer grants to organizations that also have a Revenue Canada charitable designation, and this limits its scope (Perry 1993). See section 6.2.12 for a discussion of Canada’s Charity Act.

**VanCity Enterprises Ltd.**

VanCity Enterprises Ltd. (VCE) is a real estate subsidiary of VanCity Credit Union. It was created in 1989 by VanCity’s Board of Directors to "undertake real estate investments and developments in residential and commercial projects with a mandate to achieve both social and commercial objectives" (Brochure titled, "VCE Ltd. Real Estate Development, Management & Investment. April 1992). It was capitalized with a one-time donation from the credit union of $10 million. One of VCE’s objectives is to work with investors, developers, community groups and the provincial government to pursue socially-responsible joint venture opportunities in real estate development (Ramsay 1993). One of its projects,

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21 At the time of the planning session the Board thought that there would be enough funding to continue in the other project areas. However, when interest rates fell and the income from the endowment was reduced, it became clear that there would not be enough resources to develop the other areas as well.
"Constance Court," winner of the 1992 Credit Union Central of Canada Award for CED, illustrates this approach to social housing development.

"Constance Court" is an innovative commercial development that incorporates affordable community housing. The ground floor is taken up by the Kamloops and Hastings Community Branch while the upstairs consists of 34 units of affordable housing for seniors, single parent families, and people with disabilities (Louis 1992).

Constance Court was developed by VCE in partnership with Entre Nous Femmes Housing Society, a non-profit specializing in the development of affordable housing for single parents, the B.C. Housing Management Corporation’s Non-profit Housing Program, and the Canada Mortgage and Housing Corporation (CMHC). VCE was responsible for overseeing the development of the project, ENF agreed to manage the housing complex once it was completed, and the provincial and federal governments provided most of the funding for the project.

In order to make the air space above the branch affordable, VCE devised a strata-title lease concept that reduced the cost of land by 50% thereby allowing non-profit housing to be built in an area where land costs would normally have made such a project impossible. The lease is for 41 years and allows access to expensive inner-city land. This is an important point because most social housing projects are located in the suburbs far from work and services. The Kamloops branch is located close to downtown on a major bus route. VCE believes that this development offers a model for the development of family housing in high density downtown urban areas (VCE 1992, "Application for the CUCC Award for CED").

At present, VCE has a number of other projects on the go. However, socially-responsible real estate development forms only a portion of its total activity.
Baie Acadienne Venture Capital Group

In 1984, Caisse Populaire Evangeline established the Baie Acadienne Venture Capital Group to assist with financing new enterprises (Quarter 1992:104-105). Its mandate was to provide equity investments in new or expanding businesses. The Group was capitalized through a yearly allocation of a portion of the credit union’s surplus earnings.

Investments were made in conjunction with the P.E.I. government. If the business fit the criteria set out by the government, the credit union could get 25% of its investment back from the government which had the effect of lowering the risk by 25%. The criteria for eligibility were as follows. The business could not compete with services already available in the community; it had to be a P.E.I. business; and it had to have the potential for creating employment.

The Group made investments of about $300,000--the largest one being $150,000--to eight small businesses and three co-operatives. The loans started out small, but quickly increased in size. Within a couple of years, the Group was suffering numerous losses. As a result, the credit union decided to curtail its activity. Since the late 80’s, it has been inactive.

Paul Richard, the current manager of the credit union, attributes the fund’s problems to two factors: the fact that it grew very quickly and gave out some very large loans which then went bad; and the fact that the credit union itself provided loans to these ventures as well so that any losses suffered by the Venture Capital Group were also suffered by the credit union (personal communication, 18 May 1993).

If the fund was reactivated, the credit union would go back to the basics--smaller loans spread out over a larger number of borrowers--with a maximum investment per company. The credit union would also try to "move the [Group] away from the credit
Richard, who was the administrator of the Venture Capital Group at the time, found the situation very difficult. "It is difficult to collect on investments when you can't even collect on the loans. And I would rather get the loan back than the investment. This created lots of difficulties for me (Paul Richard, personal communication, 18 May 1993)."

The Self-Help "Development Bank"

North Carolina's Self-Help Credit Union (see section 4.3.5) is assisted in its CED lending, by the Self-Help Ventures Fund (SHVF), and the Centre for Community Self-Help (CCSH). The three organizations together make up the Self-Help Development Bank. This non-profit holding company is an example of a community development bank (CDB), a class of financial institutions that specializes in community development financing. A CDB differs from a conventional bank in a number of ways (CCSH 1992):

a) its primary mission is lending to non-traditional borrowers, disadvantaged groups;
b) it forges partnerships between public-sector development programs, private-sector capital, and local community-based groups; and
c) it provides technical and managerial assistance in conjunction with the capital.

Every CDB (and there are four in the United States) is built upon a federally-insured depository institution that uses interest-bearing savings accounts (money markets, IRAs and CDs) to build an asset base for lending (CCSH 1993). Self-Help is the only one that uses a credit union, the rest use banks. Every CDB also has a number of non-depository affiliates through which it attracts resources for experimental programs and for more risky lending.

As mentioned earlier, the Self-Help Development Bank has two affiliates in addition to the credit union. The Self-Help Ventures Fund (SHVF) is an unregulated, non-profit revolving loan fund which obtains capital through low-interest loans and grants from
foundations, religious organizations and private corporations. It provides debt and equity financing for the highest-risk commercial borrowers (Schall 1991:16-17). The Ventures Fund allows Self-Help to make more risky business loans than the highly regulated credit union can put on its books (Wright, 1991).

The Centre for Community Self-Help, also a non-profit organization, serves as the umbrella for these financing affiliates. It develops new programs, provides technical assistance to a broad range of individuals and community-based organizations, and performs policy analysis (CCSH 1993:2).

The Centre for Community Self-Help and the Self-Help Ventures Fund, as non-profit institutions, receive tax-exempt contributions from individuals, religious organizations, foundations, public-sector agencies, small businesses, and corporations. These monies are used to support operations, to develop new programs, to cover costs of technical assistance and to make loans. The Ventures Fund, with $14.5 million is assets (December 1992), also receives Program-Related Investments (PRIs)—long-term, low-interest loan from Foundations (CCSH 1993:21).

The Self-Help example differs significantly from the other examples discussed in this section in that the credit union is not the parent organization, nor does it provide the financial resources to capitalize the affiliates.

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22 Loans are frequently divided up between the credit union and the Ventures Fund. The collateralized, secured part is furnished by the credit union and the risky part is furnished by the Ventures Fund. This practice allows Self-Help to do most of its lending out of insured deposits, and still do some of the more risky lending that is so important to its mission (Jim Key, 6 August 1993).
In 1991, the Board of CCEC Credit Union completed a strategic planning exercise in which it re-affirmed the credit union’s commitment to CED (CCEC 1992:1). The Board agreed that the credit union should take a more proactive role in CED, an objective referred to as "Beyond Banking" (Conn 1992).

A number of the credit union’s directors believe that the credit union needs an independent vehicle to carry out its CED work in a more focused, concentrated way. The Development Committee is exploring the options for establishing a non-profit or charitable society to do the outreach and development work that the credit union cannot do.

The credit union has never been able to provide full-scale support to people wanting to start up new businesses, worker co-operatives, etc. And there is nowhere to send them for the information they need. The credit union does not fulfil all the CED-information/assistance needs of the community--it was never intended to. [But], [i]s there a role for the CCEC Society [to fill in a few of these gaps] (Kelly 1993)?

Melanie Conn, one of the directors of CCEC, and a member of the Development Committee, sees a number of advantages to having a separate society:

[It] would not be limited in what it could do with its funds. Moreover, there would be staff working full-time on the CED work so that community groups would know where to go for help (personal communication, 31 July 1993).

The latter is very important because the credit union, being small, does not have the resources to hire staff to do CED and other development work that does not relate directly to the work of running a financial institution (Melanie Conn, personal communication, 31 July 1993).

The structure and function of the Society is still being worked out, as is its relationship to the credit union.
B. Committee Structure

There are other ways in which credit unions have re-organized themselves to further their participation in CED. CCEC, for example, recently established a new Development Committee with subcommittees on CED, Education and Member Services (Conn 1992). This Committee is charged with exploring ways for the credit union to take a more proactive role in CED (one of the objectives that came out of the 1991 Strategic Planning Session mentioned earlier) (Conn 1992). Bread & Roses also has a CED Committee.

4.5.2 Staff Training and Development

A credit union's ability to carry out CED is greatly affected by the capabilities and commitment of its staff. Saskatchewan credit unions have started a process to educate their staff about CED.

In November 1992 Credit Union Central of Saskatchewan and the Saskatchewan Wheat Pool jointly sponsored community development workshops in five different locations around the province. About 400 elected leaders and employees attended the day-long sessions (80-100 attended each). "They listened to lectures, watched demonstrations, and took part in group discussion and open dialogue about what they could do to promote economic development in their communities (Ferguson 1992:1)." The workshops introduced credit union leaders and employees to concepts of community economic development and encouraged participants to initiate planning processes and action in their communities. The workshops had two goals: to act as a "catalyst for community and economic development in the long term" and to help participants develop skills and gather the information they need to get involved (Ferguson 1992:1).
As a follow-up to these sessions, a number of credit unions convened meetings in their own communities with other community leaders and groups to discuss ways of working together to ensure community survival.

4.5.3 Planning and Program Development

A number of credit unions have initiated new planning processes in order to identify a role for themselves in CED. Initiatives fall under three categories: community consultations; long-term strategic planning; and information-gathering.

A. Community Consultations

For a credit union trying to identify a role for itself in CED, consultation with local community groups is an important place to start. An internal planning process that is more open to community input is very desirable from a CED perspective.

VanCity appears, on the surface, to be opening up its planning process to input from community-based organizations. To gather ideas for its social/community role, the credit union "consults" with the community through workshops, focus groups, and discussions with advocacy organizations, on both general and specific topics. The ideas that come out of these consultations are researched by staff and presented to the Board and Executive Committee along with a preliminary feasibility study. The two examine the proposals through the CSR (Corporate Social Responsibility) screens and choose those that seem to fit the mandate of the credit union. Then the staff write a report to the community participants telling them which recommendations have been accepted and asking them for further input. The process is still quite closed, however. Community participants are told which recommendations have been accepted, but are not told about the ones that have been rejected.
or the reasons why.

For example, the credit union hosted a half-day workshop with 50 community leaders and activists from across the Lower Mainland. The objective of the exercise was to "identify potential initiatives that VanCity might undertake to promote community economic health" (Dovetail Consultants 1993). The idea was for the community members to generate new ideas and approaches, rather than having them rank or evaluate existing strategies.

The workshop generated a long list of potential initiatives and ideas for VanCity to consider. Because of time constraints, however, few of these were developed in detail and questions of trade-offs and compromises were not generally addressed. These suggestions were then considered by the senior management and the Board of the credit union and priorities were set (Dovetail Consultants 1993). Of the many initiatives generated, the credit union chose to pursue five (Pieter van Gils, personal communication, 15 July 1993).

From the perspective of meaningful community participation, the process was flawed in a number of ways:

a) It was too hurried; and

b) Community participation was limited to the initial generation of ideas; the participants played no further role in prioritizing suggestions.

What this highlights is the difficulties a credit union faces in trying to incorporate community involvement into its strategic planning. There is a definite conflict between the goals of community outreach, participation and accountability and the business goals of efficiency. Moreover, a credit union runs the danger of raising expectations by such processes, and further alienating community groups, when and if it is unable to deliver on these expectations.
B. Long-term Strategic Planning

Access to information is important to the planning and implementation of a strategic plan for credit union participation in CED. Many credit union leaders lack basic information about their communities and the forces that are changing them. In 1991, Credit Union Central of Saskatchewan embarked on a research project to provide credit union leaders with this kind of information. The research was initiated as a response to the economic decline experienced by rural Saskatchewan and the impacts experienced by the credit union movement as a result. The movement felt that credit union leaders would be more able to structure an appropriate/innovative response if they understood the reasons for the decline and how socio-economic behaviour (shopping, buying patterns) has shifted as a result.

In 1991, Credit Union Central of Saskatchewan contracted the University of Saskatchewan to gather information about long-term change in the 598 villages, towns and cities in the province. The two-part study examined the development of population and services in each of the communities from 1961 to 1990, as well as changes in consumer and shopping patterns. Rather than concentrating on the provincial economy as a whole or on regional economies, the study focused on individual communities.

According to Jo-anne Ferguson, Manager of Research at Credit Union Central of Saskatchewan, the approach is valuable because "there is lots of information about the

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23 The first study, called "The Changing Role of Rural Communities in an Urbanizing World: Saskatchewan 1961-1990," follows the 30-year development of communities in Saskatchewan. The second part of the research, "Restructuring Rural Saskatchewan: The Challenge of the 90's," provides more details about particular types of communities and the changes which are affecting them. Both of the studies highlight the decline of small and rural communities, and attempt to describe the causes of this decline. The research was conducted by the University of Saskatchewan’s Department of Agriculture (Credit Union Central of Saskatchewan, Research Summary).
economy and where it is going, but there is nothing of a substantive nature about the changes in [individual] communities "(personal communication, 13 August 1993). The research was commissioned in order to provide credit union leaders with information to help them plan the future activities of their credit unions. In particular, Central hopes that the information will help credit union leaders take a more proactive role in guiding and enhancing community development.

The research has been used in a number of ways. In 1991 each credit union board met with Credit Union Central management to discuss local implications of the community-based research study. In 1992 many credit union leaders used the information to facilitate discussion of development options with other leaders in their area/region (Credit Unions of Saskatchewan. Profiles 1992:9). Directors of credit unions are often involved in other activities in the community. Many have taken the information about the trends and shared it with their colleagues on boards (e.g., Chambers of Commerce, Economic Development Boards). The research has also been useful because it has helped credit unions find ways to jointly deliver service and to work together to meet the needs of communities (Jo-anne Ferguson, personal communication, 13 August 1993).

Credit unions are now using this research as a basis from which to plan community and credit union action. Some are undertaking a joint planning process with credit unions in neighbouring communities; many are planning with other local organizations, such as the Wheat Pool and the Co-op store. The local economic development committee is also usually involved (CUCS 1991:15).

Credit Union Central of Saskatchewan also produced an educational video called "A Reason to Believe" based partially on the research conducted by the University of Saskatchewan. The video is designed for use by local community groups, planning
organizations and credit unions. The first part of the 15-minute video summarizes the findings of the research and identifies "key attributes of survival." The second part of the video identifies six principles of collaborative community development--principles that communities can follow in planning CED initiatives. Examples of successful community projects throughout communities in the province are used to illustrate the principles.

C. Surveys

Identifying the financial needs of community groups, non-profits, and community businesses, is an important first step for a credit union that wishes to participate more actively in CED. Self-Help Credit Union has developed a way to do this. In 1993, SHCU mailed surveys to 6,000 North Carolina child care providers to understand better their financing and technical assistance needs. A similar survey of several hundred technical assistance providers is planned for next month (CCSH, May 1993, pamphlet on child care).

4.6 Summary

The majority of credit unions are not participating in CED. Three bodies of evidence support this finding: the CED literature, the interviews with credit union leaders and CED practitioners and the figures on credit union lending. This being said, however, there are credit unions that are involved in CED. Some have a holistic commitment to CED while others have a partial commitment. Only three credit unions in Canada have a holistic commitment to CED. All three are finding it difficult to maintain their ideals in the face of stiff competition from other financial institutions. Three examples were given of credit unions with a partial commitment to CED. None of the three devotes the majority of its efforts to CED, but all recognize (or did at one time) the need for credit unions to address

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broader issues of community well-being. Something else that emerges from the descriptions of the different credit unions is the importance of leadership; in every one of the cases discussed leadership played an important role.

What both holistic and partial credit unions share is a desire to make their participation in CED more effective by adopting organizational changes. Three aspects of organizational development were discussed: new institutional arrangements; staff development and training; and planning and program development. The most striking aspect of these discussions is the fact that a number of credit unions have created subsidiaries to carry out their CED work.

The next chapter continues the investigation of what credit unions are doing to support CED.
CHAPTER V  CREDIT UNIONS AND CED; ACCESS TO CAPITAL AND OTHER SUPPORT FUNCTIONS

5.1 Introduction

One of the greatest barriers that CED initiatives face is a dirth of support mechanisms appropriate to the particular problems they face. The isolation experienced by many CED strategies is an important factor in their high rates of failure. The literature suggests that CED strategies require at least four ingredients in order to succeed: access to capital; technical assistance; a community to support them; and community infrastructure development. (See Appendix III). It is unlikely that any one organization will be able to supply all four, but all four are indispensable. For CED to grow in its overall effectiveness systems must be in place to deliver assistance. Only when support mechanisms are woven together and mobilized into a concerted, co-ordinated strategy will CED have a chance at survival. Thus it is reasonable to expect that any one of these--development finance mechanisms, for example--being only part of a CED system, will be more or less effective depending on the strength of the other components (Lewis 1993). So CED is in need of support organizations that can give assistance in one or more of the four areas as well as ways to link up the different mechanisms into an integrated system.

In this chapter, credit union participation in CED is examined in relation to two kinds of activities:

1) Providing access to capital; and

2) Fulfilling the other three support functions.

The first area of inquiry is the most obvious given that a credit union is a financial institution. That a credit union might also play other support roles is very intriguing. The next section identifies what credit unions have done to make capital available for CED.
Section 5.3 examines other support roles that credit unions are fulfilling (based on the CED support functions discussed in Appendix VI).

5.2 Access to capital

Because credit unions are depository institutions, they have a duty to be prudent with their members’ money. One of the barriers to providing capital for CED is risk. A number of credit unions in Canada and the United States have developed mechanisms for financing CED that address this problem. Another barrier to providing financing is the need for subsidized credit (capital that is both "friendly" and "patient"). A credit union that wishes to deliver this kind of financing must have explicit consent from the membership and the depositors to pass on this kind of subsidy to the borrower (Keith Jardine, personal communication, 30 May 1993).

5.2.1 Lending Programs

A. Community Investment Funds

A few credit unions have developed special deposit programs that channel money into CED and community development. These programs represent a way for the credit union to raise low-cost capital for use in the community. All of the examples given pay depositors a below-market rate of return, then pass the savings directly onto the borrower. These special deposit programs provide a bridge between social investors and individual or group borrowers working to improve the community.

Bread & Roses Credit Union has developed a non-interest bearing savings account called the "roses" account. The funds deposited in these accounts help keep costs down thereby allowing staff to devote more time to serving social change groups. The "roses"
accounts subsidize the costs of small and short-term loans to social change groups, loans which would not be viable on their own (Brochure titled, "Bread & Roses Credit Union...a Financial Co-operative for Social Change").

In its early days, CCEC Credit Union did not pay any interest on members’ savings accounts nor did it declare any year-end dividends. All profits generated through the activities of the credit union were used to improve its lending capacity and to provide low-interest loans to its members for their CED work. What remains of this early policy is a commitment to providing loans at below-market rates to non-profits and co-operatives.

In 1993, VanCity Credit Union launched a socially-responsible investment fund called the Community Investment Deposit Program.\(^1\) Funds deposited under this program will be used to provide low-cost loans for community initiatives in the areas of affordable housing, education, the environment and job creation. For the first year of operation, all lending will be concentrated in the area of affordable housing. The credit union hopes to start lending in two of the three other program areas by 1995.\(^2\)

Money deposited in Community Investment Deposits (CIDs) earns one per cent less than the market rate of interest. This rate differential is passed on directly to the borrower. A one per cent rate difference reduces the debt burden of housing projects and increases their likelihood of qualifying for financing. CIDs are available in 1-5 year term deposits or as RRSPs. The minimum deposit is $500; the maximum deposit, $150,000.

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\(^1\) Except where otherwise indicated, the information on the CID program is excerpted from a brochure written by VanCity Credit Union called, "VanCity Community Investment Deposit. An Opportunity to Build Something More Than Your Savings."

\(^2\) The CID Program is modelled after the Vermont National Bank’s "Socially Responsible Banking" Fund (SRB). SRB differs in that it offers a market rate of return. Appendix VI gives a list of the SRB’s program areas and the criteria used to choose worthwhile projects.
Decisions about which proposals to fund will be made by the Commercial Mortgages Department (CMD) in conjunction with a "Community Investment Deposit Advisory Council." The Council, consisting of a representative of VanCity's senior management and community representatives with expertise in the identified program areas, will make the final decisions about which proposals to fund. In order to be eligible for CID financing, projects have to pass an initial screening by VanCity staff to determine their financial suitability.

As of March 1994, there was close to $500,000 on deposit in the program. The first commitment of funds will likely be made by June 1994. At the moment, the Advisory Council is meeting to establish the guidelines for potential projects (Pieter van Gils, personal communication, 21 March 1994). Pieter van Gils hopes that the Community Investor Deposit Program will eventually make $3 million in disbursements annually (personal communication, 21 March 1994).

The involvement of community members is a crucial component of this program. Because of their expertise, the community members will be able to advise the credit union on the viability of prospective projects thus ensuring the most effective use of the funds on deposit. The Council is needed to supplement the skills of the credit union staff which currently lacks expertise in these fields. "The involvement of community people is very important in shaping the activities of this program because VanCity does not have the in-house expertise to do this kind of lending (Pieter van Gils, personal communication, 27 July 1993)."

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3 The Board of VanCity has actually delegated decision-making authority to this body "which is a real first," says Pieter van Gils (personal communication, 21 March 1994). The Board feels comfortable doing this because it has approved the terms of reference for the Council, the selection of members and the lending guidelines.
This product is driven by the corporate social role discussed earlier in the chapter.

According to Pieter van Gils, a VanCity staff member, the CID program is not something VanCity engages in for financial reasons.

It is not because we want $15 million in deposits. We can get those anyways. Rather we feel that we ought to provide this kind of financial product tying members to the community through the credit union (Pieter van Gils, personal communication, 27 July 1993).

Another program, the VanCity EnviroFund, initiated by the credit union in 1990, provides grants ("subsidized" capital) to local community initiatives that address specific environmental issues. "Projects must be local, ongoing, action-oriented, ecologically and socially responsible, and firmly rooted in the community (VanCity brochure titled, 'Some time ago, we planted a seed')."

The program is funded through donations made by VanCity when members use their VanCity VISA cards at least once a month. VanCity matches these funds with a corporate donation. The EnviroFund makes grants of up to $50,000 to local community groups that demonstrate "imaginative, practical solutions to specific environmental concerns facing communities in the Lower Mainland and Fraser Valley (Brisebois 1992a)."

Projects that develop feasible energy alternatives, community greening, ecology-minded urban design, the regeneration of natural habitats, non-polluting transportation, or agricultural alternatives are examples of the types of projects that are eligible (Brisebois 1992a).

While not specifically a CED-focused fund, some of the recipients have been CED projects. The grants contribute a great deal to the work of these groups.

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4 A grant was made to the Community Alternatives Society (CAS), a non-profit organization that has created a farm co-operative, an organic vegetable company, two communal housing co-operatives, a co-operative restaurant, and a community business providing employment for mentally and socially challenged people. CAS is using the EnviroFund grant to market an environmental impact service for community groups. The project involves working with housing co-operatives, local restaurants, schools, small businesses and VanCity's community branches.
B. Low/No interest loans

No-interest consumer loan programs to encourage local buying

Many credit unions throughout Canada have adopted special consumer loan programs to encourage their members to shop locally at Christmas time. While the names of these programs vary from one community to the next, all provide interest-free loans to shoppers who spend the money locally at participating community businesses (CUCS 1991:16). The goal of these programs is to stem the outflow of dollars and to boost the local economy.

Grand Forks Credit Union and other B.C. credit unions located near the U.S. border, offer no-interest loans at Christmas time to discourage cross-border shopping (Melanie Conn, personal communication, 31 July 1993). In 1991, 57 Saskatchewan credit unions ran Christmas cash programs. They made 7,096 loans valued at $7.79 million (CUCS 1991:16).

Credit unions in Ontario have also adopted these kinds of programs. Woodslee Credit Union in Essex County launched an Interest-Free Loan Program in conjunction with the Essex Business Improvement Association and the Royal Bank. The two financial institutions offered interest-free loans ranging from $600 to $2,000 between October 1 and December to assess daily operations and to recommend alternative patterns that are more environmentally sound (Brisebois 1992b). The Strathcona Community Gardeners' Society provides community gardening space for low-income residents of the Downtown Eastside and Strathcona neighbourhoods. The society is using its $25,000 grant to enhance the present garden site and to further develop an adjacent site. The Strathcona Community Garden is renowned for its promotion of ecologically sound gardening techniques, community involvement, and cultural diversity (Trendell-Whittaker 1993). A third group, Better Environmentally Sound Transportation (BEST), runs a community bike shop which trains people to repair discarded bicycles and promotes reusing, recycling and decreasing air pollution. The shop then makes the bikes available to low-income citizens requiring transportation. BEST received a grant of $15,000. The shop offers training and mechanical skill development to staff and customers, particularly women, who typically lack experience in buying and maintaining bicycles (Trendell-Whittaker 1993).
24, 1992. Residents could make purchases at participating merchants without paying cash and had until April 30 to repay loans interest-free (Gage 1992/3).

Timiskaming Credit Union in Northern Ontario has initiated a 'Christmas Cash' program which offers members loans of up to $2,400 repayable until June 30 interest-free. Nineteen credit unions in Thunder Bay participated in the second annual 'Interest-Free Shopping Spree'--a program which successfully minimized out-of-town shopping. The Avestel Credit Union provided loans of $500 to $1,500 for the 'Shop Local' program initiated by the Tilsonburg Business Improvement Association (Gage 1992/3).

In St. Catharine's, nine area financial institutions, including three credit unions, are working together to stimulate the local economy with the "Boost St. Catharines--It's First Rate" community campaign. The program offers 6-month, interest-free loans for local retail purchases. Organized by the St. Catharines Promotions Task Force and leaders from local businesses, it has involved considerable cooperation on the part of the participating financial institutions (Gage 1992a).

Aside from their community economic impact, these types of loans serve an important purpose from the perspective of the financial viability of credit unions. Credit unions in Ontario are finding that the downward pressure on interest rates has reduced their financial margins, and in some cases, has significantly reduced their net interest income. Consumer loan incentive programs are one way to generate much needed loan business (Gage 1992/3). These programs also increase the profile of credit unions, thus increasing community interest and drawing in new members.
Low-interest loans for worker buyouts

The Northland Savings and Credit Union in Kapuskasing also offered the residents of the community low-interest loans, but in this case, to help them buy a local paper mill. Residents of the community were able to raise $12.5 million from local financial institutions (one of which was Northland Savings) to buy Spruce Falls Power and Paper Mill when the owners announced plans to shut down the plant. At community meetings held to encourage investment in the mill, Northland helped to educate residents about the process of investing large amounts of money in the mill. To encourage members to buy shares in the company, the credit union established a preferred lending rate about 4% lower than the usual demand loan rate. (Northland was able to do this because it had 20% liquidity.) A total of 124 credit union members invested $1.2 million in the mill, approximately 10% of the total amount raised by Kapuskasing residents. The average investment was $9,725. With the capital they raised, area residents formed a partnership with an employee-owned forestry company from Quebec and jointly purchased the mill. In its first year of operation, Spruce Fall Inc. made a small profit. It was managed by a Board of Directors nominated by shareholders, employees and Kapuskasing’s town council (Gage 1992b).

DayCare

VanCity Savings Credit Union offers a daycare financing program. Qualified operators of daycare facilities can apply for loans at reduced interest rates to upgrade or expand existing facilities. Help is also available for borrowers wishing to start a new daycare facility. Lines of credit at prime minus 1/2% and reduced mortgage rates are available (VanCity Brochure titled, "Financial plan for daycare operators"). Through this program, the credit union helped create 161 child care spaces (Ramsay 1993).
5.2.2 Partnership Lending

Partnership lending is a process whereby the credit union brings its resources into partnership with other public and private entities. This is an important way to share risk and to multiply the dollars available for lending. There are a number of ways that a credit union can participate in partnership lending.

A. Working with other credit unions

Syndicating loans

Jo-anne Ferguson (personal communication, 13 August 1993) gave an example of an alfalfa plant in Yorkton, Saskatchewan where the loan was done by three credit unions and the Tribal Council. When a loan is syndicated, each credit union lends a portion of the loan. No one institution assumes the risk for the entire loan. Loans are syndicated for two reasons: to pool risk; and because none of the credit unions has adequate reserves to do the entire loan.

Pooling capital

The Young Entrepreneurs Start-up Fund is a non-profit corporation created by a group of caisses populaires in Quebec. Each credit union puts a capital sum into the corporation. This money is invested and brings in interest. Funds are used to guarantee a part or all of the loans made to young entrepreneurs. As a first step in the process of granting a loan, the application from a young (under 30) entrepreneur is evaluated by the individual caisse populaire. If the caisse populaire decides that the project is worthwhile, but the young person lacks sufficient collateral, it will suggest that s/he apply to the fund for a
guarantee. The entrepreneur then meets with the fund’s administrative board, which is composed mainly of directors of the participating caisses. If the Board agrees to guarantee the loan, the regional Federation automatically agrees to go surety for another half. Thus with an investment of 'x' from the individual caisse, the fund can guarantee a loan of '2x' (Regis 1989:5). According to Regis Robin, a representative of the Mouvement Desjardins in Quebec, this kind of investment vehicle is both positive and promising. As an operational process, it can be easily managed. But there is one significant problem: this kind of help is limited to very small firms, and as a rule to sole proprietorships (Robin 1989:6).

B. Leveraging outside resources

A credit union can use its own resources to leverage in additional funds from private and public agencies. An example of this is the Caisse Populaire Evangeline and the P.E.I. Potato Chip Co-operative.

In 1987, a worker-owned potato chip manufacturing plant, called the P.E.I. Potato Chip Co-operative, was started in the Evangeline region of P.E.I. Financing for the venture came from the credit union, the venture capital group, the provincial and federal governments, and from the worker/owners themselves (Ketilson et al. 1992). The enterprise began with member loans and other financing of $225,000 from the credit union. With this initial "seed" capital, the co-operative was then able to turn to government sources for the remaining funds to complete the $775,000 financial package (Quarter 1991). Financing from the credit union consisted of the following loans:

* $70,000 in members' equity borrowed through the credit union (each worker/owner invested $5,000 in the business);

* $51,000 invested by the credit union in common shares, a working-capital loan secured by a second mortgage; and
$35,000 from the Baie Acadienne Venture Capital Group.

C. Loan Guarantees

Individuals seeking to start their own micro-business or to become self-employed face two significant barriers: access to capital and a lack of business skills. Financial institutions generally refuse to give out loans of under $5,000, nor do they provide technical assistance. In order to get started, many micro-businesses require capital in amounts smaller than this and technical assistance. Lending to these types of businesses is very costly for a financial institution. It is also considered very risky. A number of credit unions in Canada have engaged in micro-enterprise lending, but only with the assistance of a loan guarantee from a third party—usually government. A loan guarantee effectively reduces the risk to which the credit union is exposed allowing it to make less secure loans.

CCEC Credit Union has made a couple of loans with guarantees provided by a community-based financial intermediary called the WomenFutures Loan Guarantee Fund. The guarantee works in the following way: WomenFutures provides a 50% guarantee, the lending institution, 25% and the borrower provides 25%.

In Canada, most guarantees are provided through government. University and Colleges Credit Union (UNICOLL) in Toronto has an agreement with the Ministry of Municipal Affairs to do $250,000 of guaranteed lending (Gary Gillam, personal

5 The WomenFutures Loan Guarantee Fund is a pool of community investment capital that is used to provide loan guarantees for women interested in starting their own socially-responsible, community-based businesses. WomenFutures works in partnership with CCEC Credit Union to provide capital to women who are denied access to credit because they lack collateral or equity. Appendix VI contains a detailed listing of the criteria employed by WomenFutures to choose worthwhile projects.
communication, 5 August 1993). The Ontario government provides a 100% guarantee for loans under $10,000, a program that it is only delivering through credit unions (Gary Gillam, personal communication, 5 August 1993). Bread & Roses credit union is an agent of the New Ventures program. With the security of an Ontario government guarantee (of up to $15,000), Bread & Roses lends money to new registered and incorporated companies (Brochure titled, "Services for Members," March 1993).

D. Administering pools of capital

A government or a private foundation deposits a sum of money into the credit union for a specific purpose, e.g., daycare, housing development, small business lending, micro-enterprise lending. The credit union lends the money to local residents. It is assumed that because of its expertise in loan servicing and knowledge of the community, the credit union is better placed to do the lending than the government. The advantage of this approach is that it decentralizes the decision-making process, strengthens local organizations and builds community capacity.

CCEC's involvement in the Peer-Assisted Lending Program is similar. The

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6 Gillam pointed out though that this is the equivalent of one mortgage loan for the credit union.

7 Peer-Assisted Lending (PAL) is an innovative business credit program that provides loans to self-employed individuals. Loans start in the $500 to $1000 range and increase to a maximum of $5000 through a series of five successfully repaid loans. Unlike traditional lending sources, PAL does not require collateral or a credit history on the part of the borrower. Security is supplied by a self-selected borrowing group of four persons, all of whom are willing to vouch for each other’s good character and commitment to repay. While borrowers are not legally responsible for each other's loans, credit is frozen if anyone falls behind. This creates a powerful incentive for other group members to help resolve the problem. First-time borrowers who successfully repay their PAL loans can acquire a credit history and eventually graduate to regular credit sources (CCSH 1993; Godfrey 1993; Ireland 1993; Lirenman 1993). PAL is funded by the Calmeadow Foundation, with support from the Vancouver Foundation and
Calmeadow Foundation deposits the capital for the program in the credit union. When a person from one of the borrowing circles qualifies for a loan, CCEC administers the loan from the deposited pool.

5.3 Other Support Functions

In addition to providing access to capital, credit unions have assisted CED initiatives in other ways. Credit unions have lent their human and financial resources to help provide technical assistance, to help build "community," and to develop community infrastructure.

5.3.1 Technical Assistance

When businesses receive technical assistance, they are much more likely to survive. The credit union with its financial expertise, has an important role to play in providing CED institutions and individuals with technical assistance, particularly with respect to financial planning. The following are examples of ways that some credit unions have provided technical assistance to community-based organizations and individuals.

A. VanCity's Seed Capital Fund

VanCity Savings Credit Union learned some important lessons regarding the importance of providing technical assistance to small business borrowers from its experiment with a seed capital program. In the late 80's, VanCity initiated a small business lending program called the "VanCity Seed Capital Program." The program operated for two years under the direction of a person who was himself a successful entrepreneur. As a result, borrowers...
were given a great deal of technical assistance. In the first two years, the seed capital
program made close to 20 loans, with only two failures. The failure rates increased
dramatically when after the first year and a half the program was curtailed and the person
handling the technical assistance was terminated. One of the directors of VanCity believes
that the eventual 50 percent failure rate of the program was the result of cutting off the
necessary technical assistance from a specialist (Perry 1993).

B. VanCity Community Foundation

One dimension of the work of the Foundation is to provide technical assistance. This
is particularly important in situations where it cannot provide loans to organizations. Picasso
Cafe is a non-profit restaurant in Vancouver that operates as a training program for youth in
transition from the streets. When the restaurant experienced difficulties attracting clients
during evening hours, the Foundation provided a grant to implement a new marketing plan.
The plan itself was brokered by the Foundation from Coopers & Lybrand who designed and
donated it (Perry 1993; Ramsay 1993).

C. CCEC

In 1992, CCEC facilitated its first Community Business Cluster--a group of members
operating businesses in the print communications industry met to prepare and distribute a
joint promotional package to potential customers. CCEC views this as an opportunity for
like-minded businesses to explore ways of supporting and promoting each other (Conn 1992).

D. Mouvement Desjardins

During the economic crisis of the early 80’s, the Mouvement Desjardins (MDJ)
realized that recovery would come through small and medium-sized businesses (SMBs) rather than via the larger companies. In order to support these SMBs, Desjardins decided to encourage entrepreneurship in Quebec. The Mouvement became involved in a number of initiatives it termed, "new business support." It gave technical and financial support for the "Become an Entrepreneur" program, a course set up to encourage the emergence of entrepreneurs. The Mouvement also gave technical and financial assistance to the "Young Venturers," a program aimed at students in the final year of high school. During the year students organized and operated a mini-business. Credit union directors acted as advisors, contributing almost 600 hours of their time to provide backup. A program to support the creation of young workers' co-ops was also initiated. Two new co-ops were started and the group helped two working co-ops to solve their problems and survive. The Mouvement has also supported the creation of business incubators.

5.3.2 Building "Community"

The existence of a "community" is an essential element of CED. Without the relationships of trust and mutual respect engendered by community, CED is impossible. The social accounting rationale that drives CED decision-making only makes sense within the context of community. Credit unions have contributed to the building of community in a variety of ways. The most common way that credit unions build community is through the sponsorship of special community events such as community picnics, capital campaigns for

8 These examples are drawn from a speech given by Regis Robin, a representative of the Mouvement Desjardins, the Quebec credit union system, in 1989 at a meeting of credit unions in British Columbia. The fate of these programs is not clear. However they are included because they illustrate the kinds of technical assistance programs that some credit unions have tried.
local charities or community facilities, and theme days. Community events, especially those that involve co-operation on the part of many community members, help to build a sense of common identity amongst members, and make them feel good about one another and their community—an important building block for CED.

CCEC Credit Union has created a very useful tool for maintaining a sense of community among its membership, called the CCEC Credit Union Member Directory. CCEC publishes a member directory to encourage networking among the businesses, co-operatives and non-profit groups it serves. The credit union sees the directory as a way to encourage its members to use the services of co-operatives and other progressive businesses and to promote awareness of non-profit organizations (CCEC 1993:1).

Developing a constituency for CED is an important aspect of building community. A good way to do this is to advertise CED successes. In 1992, CCEC Credit Union created a special award for CED—the Roger Inman Memorial Award. This award is given annually in recognition of a project that has made a significant contribution to the economic development of the community. Bread & Roses Credit Union has co-ordinated a promotional campaign to encourage the community to support co-operative and small progressive businesses.

5.3.3 Community Infrastructure Development

Community infrastructure development (also called capacity-building) refers to a process of developing the human and organizational resources of a particular group or institution. It is a term that applies equally to individuals and to institutions. For people, it means helping them to acquire the skills needed to participate in CED; for institutions and organizations, it means either creating new, more appropriate institutions and organizations or improving the decision-making, planning, and organizational elements of existing ones.
Capacity-building applies equally to the community as a whole. In this context, building capacity means helping a community acquire the human and institutional resources to adopt a CED strategy.

A. Strengthening the CED sector

A credit union, acting alone, cannot meet all of the needs of the communities and individuals that it serves. It requires assistance from other groups in the community capable of delivering technical assistance, doing community outreach, or providing specialized expertise in a particular community development strategy such as affordable housing, or co-operative development. A number of credit unions have helped to create institutions in their communities that are able to provide assistance to CED groups.

Le Conseil de la Cooperation

Leonce Bernard, the manager of the Caisse Populaire Evangeline, must have recognized the importance of this kind of mutual assistance when he helped to establish le Conseil de la Cooperation de l'Ile-Prince-Edouard (le Conseil), in 1977.

Le Conseil is situated in the Evangeline region. Its mission is to stimulate and coordinate co-operative development in the region—a task which it has fulfilled very successfully (Ketilson et al. 1992). Operational costs are covered by funding from the Secretary of State (95%) and the co-operatives in the area (5%).

In 1976, the credit union manager and one of its directors attended the annual general meeting of the Conseil Canadien de la Cooperation, a national organization representing the Francophone co-operatives in Canada. Upon returning, these two called a meeting of representatives of the eight co-operatives that existed at the time. One year later, the Conseil
was formed. Originally le Conseil worked out of the back of the credit union building and received rent-free space, telephone privileges, lights, heat, etc. as well as office materials such as photocopying, use of the fax machine, postage, etc. By sharing its material resources, the caisse populaire contributed to the viability of this organization. The reduced operating costs meant that financial resources were liberated for use elsewhere in the organization (Ketilson et al. 1992).

**WomenFutures Loan Guarantee Fund**

CCEC Credit Union helped to establish the WomenFutures Loan Guarantee Fund. The Fund provides loan guarantees for women-owned, co-operative enterprises. Initial meetings to discuss the concept for the Fund were held with CCEC. WomenFutures identifies CCEC as key to its success. The credit union’s marketing officer provided encouragement and suggestions to WomenFutures from the time of the initial discussions. Technical assistance on the financial management aspects of the Fund was provided by the general manager. And the business loans officer helped to train the Guarantee Committee members. The credit union also helped in designing a model loan guarantee and the Fund’s first Borrower’s Agreement (Ketilson et al. 1992:157). So through this process CCEC has helped to create a financial intermediary which will now enable the credit union to do more loans to women-owned enterprises that lack collateral.

**B. Education**

Educating the community about CED is a very important capacity-building approach, one that a number of credit unions have employed.
Workshops and Seminars

A very important aspect of capacity-building is education and the provision of information for individuals and groups. The VanCity Community Foundation organizes educational forums to stimulate fresh thinking about social and economic renewal. The Foundation has hosted information sessions on: "Business Finance and Women"; "Building Healthy Communities"; "Women’s World Banking"; combating poverty in big U.S. cities; Business-in-the-Community; the affordable housing crisis in Greater Vancouver; and Bridge Housing, an innovative, private affordable housing developer in California. These seminars serve to stimulate discussion about the kinds of CED activities the credit union and other community groups might consider initiating.

Credit unions in Saskatchewan, in co-operation with the Saskatchewan Wheat Pool and Federated Co-operatives, have organized local conferences on community development. Assiniboia and Lafleche credit unions, along with Saskatchewan Wheat Pool, Federated Co-operatives Ltd. and the Assiniboia Co-op, sponsored a one-day forum on community survival. This workshop brought together a wide variety of people involved in community work to focus their energies on identifying strategies to ensure community survival. This type of conference has been held in several parts of the province with more in the planning stages (CUCS 1992:9).

Over the years, CCEC has offered educational programs, ranging from evening seminars on topics such as RRSPs to the week-long Community Business Training series. In

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9 WWB is a New York-based organization that provides small loans to women in 38 countries through local financial intermediaries.

10 BIC is a British initiative that brings government, business and the non-profit sector together in partnership to solve pressing social and economic problems.
1979, CCEC sponsored a local conference on the "Economics of Community Development." These kinds of initiatives are not provided on a consistent basis because they take a lot of volunteer time and energy and the credit union itself, cannot afford to use much staff time. (Staff can be spared to organize the occasional evening seminar.) So CCEC’s ongoing educational vehicle is the quarterly newsletter, "Common Interest," which includes information on members’ success stories, as well as articles on similar work being done elsewhere (Kelly 1993).

Newsletters

Newsletters are a valuable educational tool. They are an important source of information and show what the credit union is doing to support the community. In addition, they:

* educate about investment opportunities;
* demonstrate what members are doing;
* help build a sense of community; and
* offer a way to build links between groups and businesses within the membership.

In addition to CCEC, VanCity and Bread & Roses also publish quarterly newsletters.

C. Training and skill development

A few credit unions are directly involved in training or skill development for community members.

Leadership training

Camp Rainbow is a co-operative leadership training program for young people aged
14-16 years old held for one week each August in the North Okanagan. It is sponsored by B.C. credit unions and co-ops. "By involving teens in programs that build self-esteem and commitment as community leaders, Camp Rainbow is helping shape our next generation of co-operators." Each year, CCEC sets up a scholarship fund for the camp seeded with money from the credit union. Member groups, businesses and individuals are encouraged to contribute to the fund. Scholarships are distributed through a draw (CCEC 1992:3).

**Choices Program**

The Choices Program is an anti-dropout program aimed at grade 9 students. First piloted in the Niagara region of Ontario, the program gives young people an opportunity to meet with credit union leaders to discuss future work options. The primary goal of the program is to persuade young people to stay in school. The presenters are credit union leaders (staff, managers, and directors). In areas where there are not enough credit union leaders to visit schools, outside partners, such as local businesses, may be brought in.

During 1992, a total of 337 volunteer presenters (most of whom were credit union staff) delivered Choices seminars to almost 20,000 students in Ontario. The program has also been picked up by credit unions in New Brunswick, P.E.I, Manitoba, and British Columbia (Schwager 1993).

**Strong Groups Make Strong Communities**

In March 1993, Watrous Credit Union in Saskatchewan teamed up with two other local co-operatives (Federated Co-operatives Ltd. and the Saskatchewan Wheat Pool) to sponsor a one-day skill development and training workshop for community leaders. The workshop was divided into three modules and covered a range of topics--making effective
presentations, attracting new people, board leadership and planning, roles and responsibilities, and enhancing board involvement and participation. Representatives from Central and the two co-operatives taught the modules to the close to 100 people who attended the event (CU Contact vol. 7, no. 4).

D. Supporting the non-profit sector

One of the most important resources available to a community is its non-profit sector. The services and functions carried out by non-profit organizations contribute substantially to the health and well-being of community members, and often make it possible for them to function within the "formal" economy. So a healthy non-profit sector is essential for a healthy local economy, providing the supports upon which the latter is built.

A number of credit unions have established programs to support this sector. Efforts include the provision of specialized financial services, the development of non-profit facilities, and the sharing of material and human resource.

The provision of specialized financial services

Several credit unions in Ontario offer special rates and services to non-profit groups. Kingston Community Credit Union offers the "Co-operation Plus" Account for non-profit, charitable and co-operative organizations. Benefits include the following (Gage 1993b):

a) No service charges on interest-bearing chequing accounts;
b) Tiered account to provide a higher interest rate;
c) 1/4 per cent bonus interest on Term Deposits and Guaranteed Investment Certificates;
d) Free services including: safety deposit box, cheque certification, Canadian bank drafts, Canadian personal money orders, bill payment, photocopier privileges (maximum 100 copies per month), local fax service;
e) Payroll deduction services for all full-time employees of the organization;
f) Financial counselling, budgeting and lending services offered for all full-time employees.

According to Blake Halladay, the CEO of Kingston Community, these free banking services were introduced in order to "support the needs of the non-profit organizations...already working for a better community for us all. These organizations deserve maximum benefits, reduced costs and our support (Gage 1993b)." "Co-op 10, 000" is a program developed by Bread & Roses Credit Union to promote the co-operative housing and non-profit sectors and to better serve these organizations. Services include: premium term deposits and savings rates, priority in loans and subsidized courier service.

The Co-op Housing Investment Pool (CHIP) allows housing co-ops to pool their "reserve accounts" and get a higher rate of interest as a result. The interest rate paid on CHIP increases as the total CHIP fund increases. The Co-op Housing Federation of BC receives a percentage of the return. VanCity, CCEC, and Fraser Valley credit unions all offer this program.

The development of non-profit facilities

An important aspect of the work of Self-Help Credit Union is the development of small business and non-profit facilities. Self-Help is involved in four buildings (in three different centres) which provide office space to a mix of private enterprises and community-based organizations. The Self-Help Ventures Fund acts as the developer, buying the buildings and then overseeing their renovation. Each of the four developments has a different mix of occupants, a mix that reflects the specific needs of the community in which it is located (McFadden 1992).
These facilities fulfil an important function in the community. Public service non-profits often operate in isolation of each other. Likewise, small businesses face a formidable challenge finding flexible, affordable space to fit their needs. By developing these facilities, Self-Help can actively support these organizations while generating a rental income that represents a stable base for continued growth (CCSH 1992:15).

These facilities are valuable to non-profits and small enterprises for a number of reasons (CCSH 1992:15):

a) Mutual support resulting from proximity to organizations sharing common management, fund-raising, and strategic planning concerns.

b) Availability of single offices and small suites without the requirement of a long-term lease. This flexibility is critical to most small non-profits that are constantly expanding and shrinking due to insecure and erratic operational funding.

c) Access to common physical resources, such as meeting and conference rooms, desktop publishing equipment, copiers, an integrated building-wide telephone system and shared reception, etc. (which they would be unable to purchase on their own).

d) Ready access to Self-Help staff and financial resources.

Benefits to tenants include: affordable space and shared amenities such as conference rooms and high speed copiers, as well as an "incubator" environment which enables tenants to design joint programs, share fund-raising tips and provide other types of mutual support (CCSH 1993:9). These facilities allow area non-profits to better network and to use common spaces and equipment to cut down on their overall costs (CCSH 1992:5).

Carrying out these projects has provided Self-Help staff with valuable experience in historic renovation and in creating and running a nonprofit incubator. Staff have overseen the design and construction phases, developed appropriate building management policies to retain the necessary flexibility for tenants, implemented successful marketing strategies, and operated the incubators on a break-even basis (CCSH 1992:17).

Another feature of this investment by Self-Help is the boost it gives to downtown revitalization efforts. The willingness of the Centre to invest time and resources in such a
visible way, adds energy to revitalization efforts (McFadden 1992).

**Contributing material and human resources**

Providing free meeting space to community groups is a common practice among credit unions. In a survey of Ontario credit unions, several noted that they offer free meeting room space to local community groups (CUO 1992). For example, Windsor Family Credit Union in Ontario offers charitable organizations free use of a "community meeting room" at each of its three branches (Gage 1993a).

Some credit unions make material resources available to local community groups and encourage their staff to volunteer in non-profit organizations. For example, employees of the Estevan Credit Union in Saskatchewan that are involved in local community activities may use credit union office equipment for occasional typing and copying of material required for their organizations, and may sometimes attend meetings for community associations and service clubs during working hours (CUCS 1991:17). VanCity staff are encouraged to contribute their own services personally for community purposes; a staff member may be given up to three years' leave to go to work for a community organization (Perry 1993).

**E. Supporting the informal economy**

Strengthening the informal economy is an important CED strategy. The informal economy is made up of all the unpaid, but essential (and entirely productive) work carried out by primarily women as they care for their families, friends and communities. This unnoticed, under-valued work is the very foundation of community and economy. Without it, a community has little chance for health and well-being. Supporting the informal economy is a very direct way for a credit union to encourage the emergence of a diverse,
self-reliant local economy.

A CDCU in the United States, Alternative Federal Credit Union (AFCU) has recognized this link. AFCU is a CDCU located in Ithaca, New York with assets of $17 million. It was started by a group called the Alternative Fund which gave out grants and small loans to businesses that could not get credit from banks despite the fact that they held deposits there. The AFCU offers financial services, but its primary function is to lend money back to the community. It targets three main groups: small business, low income people, and non-profit organizations (Silver 1993:36,38).

In addition to providing financial services and offering loans to community groups and members, AFCU also participates in the "informal" economy through its support for a local currency called HOURS.11 The credit union accepts Ithaca HOURS for certain designated, fee-based services. HOURS can be used to cover transaction fees such as fees for mortgage applications, business loans, overdrafts, and membership. In order to protect the credit union in the event of a system collapse, the credit union board has set a total dollar limit of HOURS AFCU can hold on hand at any one time (Silver 1993:38).

The credit union itself uses the HOURS to pay for services from the community. The printer accepts them as do the people who do repairs on the building and who mow the lawn. HOURS are also used to register for advertising events. The credit union encourages others

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11 HOURS work in the following way: Each HOUR is equivalent to one hour of time, or $10, which is the local county’s average hourly wage. Also available are 1/4 HOURS ($2.50), 1/2 HOURS ($5), and 2 HOURS ($20), all printed by a small shop in town. As with all local currencies, HOURS are only valuable in Ithaca. They circulate through the community, improving economic flow and encouraging participants to put their trust in each other rather than money. For one dollar, a resident can become a member and receives four HOURS automatically. A local newspaper, "Ithaca Money," lists all the members, their phone numbers and the more than 700 goods and services they are offering. By June 1993, 2000 hours had been issued (Silver 1993:32-33).
to accept them as well. One of the most popular uses for HOURS is to offer them as bonuses to employees. HOURS notes are signed by two people: Patrice Jennings, a member service representative at AFCU, and Victoria Romanoff, a local historic preservationist (Silver 1993:38,35).

5.4 Summary

This chapter demonstrates what some credit unions doing to support community economic development in their communities. Credit unions play a number of different support roles with respect to CED. In addition to providing access to capital, credit unions provide technical assistance, help to build a sense of community and support community infrastructure development. The fact that some credit unions are involved in CED suggests that there is potential for more credit unions to participate. However, there are some significant barriers to an increased credit union role. These are discussed in the next chapter.
CHAPTER VI  THE POTENTIAL FOR CREDIT UNION PARTICIPATION IN CED

6.1 Introduction

The previous two chapters clearly demonstrate that credit unions are participating in CED although these cases represent the exception rather than the rule. Only a small minority of financial co-operatives actually engages in any CED lending at all. The fact that so few do, suggests that there are some very significant barriers to credit union participation in CED. And these must be addressed if credit unions are to adopt CED as part of a long-term development strategy. This chapter examines these issues more closely. It starts by summarizing some of the reasons why credit unions do not participate in CED. Then it presents a rationale for credit union participation in CED. What is needed to overcome these barriers is dealt with in the next section. Lastly, ways for credit unions to build their human and institutional capacity for CED are detailed.

6.2 Barriers to Credit Union Participation in CED

There are a number of reasons why credit unions have not participated more actively in CED. Some are structural, that is, internal to the credit union movement itself; some relate to the nature of CED lending; and still others are external--borne of the pressures of the external market environment in which credit unions operate and people's attitudes towards their savings.

6.2.1 The Nature of CED Lending

Credit unions, like their private counterparts, the chartered banks, are reluctant to engage in CED lending because of the complex and costly nature of the activity. The cost of
providing the loans, the difficulty in measuring the return on investment, and the perceived risk, all act as deterrents to credit union participation in CED lending.

CED lending requires a considerable investment of time and resources on the part of the lender. CED borrowers require small loans with flexible terms as well as technical assistance, both of which are costly for a financial institution to deliver. Small loans cost the same as large loans to administer yet the return for the financial institution is much less. The need for flexible, often unconventional terms, is another expense. Complex loan agreements that depart from standardized lending procedures are more time-consuming to negotiate and thus more costly (ICE 1987:1-16). Further, because groups do not necessarily have adequate financial expertise, they require technical assistance from the lender. Providing technical assistance is costly and may require expertise credit union staff do not have (ICE 1987:1-9 to I-11).

Another problem with CED lending is the fact that the return on investment cannot be measured in strictly monetary terms. CED projects have social, cultural and environmental "returns" that are as important as the economic ones. The fact that these benefits accrue to the broader community and not just to individual members, makes them difficult to quantify. This poses a real problem for credit unions trying to make decisions in the traditional way--using purely economic accounting.

The reasons for engaging in CED lending are far more complex than the maximum rate of return on the dollar invested. The "social accounting" rationale is quite foreign to credit union managers. They have little experience with how to make trade-offs between monetary and community returns that do not favour the monetary. The risk associated with CED lending is one of the reasons why credit unions have not expanded out of their traditional spheres of activity into CED. Credit unions are deposit-taking institutions. Their
primary responsibility is to guarantee the safety of the funds they have on deposit (Richard Allen, personal communication, 20 July 1993). As such, they are severely restricted in terms of the risks they can take with deposits (Keith Jardine, 30 May 1993). As a result, credit unions are traditionally highly conservative lenders (Eberle 1987).

CED lending appears risky for a number of reasons:

a) Individuals, groups and organizations initiating CED projects may be inexperienced in financial and business management with no track record of previous borrowing;

b) The structures and processes employed by many CED institutions are unfamiliar which makes investment in them appear risky;

c) Credit union managers and staff lack the community development expertise to properly evaluate CED proposals. Loans officers have little experience or understanding of community-based enterprises and the problems they face, thus are unable to offer the appropriate technical assistance. Without the staff capacity to do this kind of lending, it becomes very risky.

d) CED initiatives operate on a social accounting rationale which makes their viability more difficult for credit unions to assess.

One of the problems that credit unions have is reconciling their low profit margins with the high levels of risk associated with commercial and CED lending. The prospects for credit union participation in financing CED are limited in the absence of mechanisms to reduce the level of risk in lending to CED (Eberle 1987:99).

6.2.2 The Success of Consumer and Mortgage Lending

Many credit unions have little incentive to explore opportunities for CED lending because they are already fully lent out in mortgages and consumer loans. These loan markets have been very stable and lucrative for the movement. As long as credit unions are able to secure borrowers in these areas, there is little incentive for them to pursue new areas of lending.
[Credit unions] have a very comfortable set-up right now with mortgages. In investment terms, mortgages are real blue chip stuff. So why [should they] get involved in CED lending which is very risky (Keith Jardine, personal communication, 27 July 1993).

Since credit unions get all the loan demand they require from consumer and mortgage lending there is little incentive for them to look for other markets that are more risky.

[When] a credit union is fully lent out in residential mortgages and consumer loans, there is no impetus to go looking for more loan demand. If a credit union has all the business it needs, and is operating efficiently, it is almost counterproductive [for it] to go out and find [loan demand to compete for existing] funds (Richard Thomas, personal communication, 3 August 1993).

The fact that credit unions are fully lent out means that to move into new areas of lending requires new capital. This acts as a further disincentive (Keith Jardine, personal communication, 27 July 1993).

6.2.3 Restrictions on Commercial Lending

For those credit unions that do wish to be active in other areas of lending, the provincial regulatory framework is very restrictive. [W]hat the credit union system wants credit unions to do is mortgages--nice, "safe" mortgages (Melanie Conn, 31 July 1993)" so credit unions are actively discouraged from participating in commercial lending.

This is accomplished by placing a limit on the amount of commercial lending a credit union is allowed to do as a proportion of its total loan portfolio (20%). The actual mechanism for this is the capital adequacy ratio (CAR).\(^1\) For credit unions, like CCEC and

\(^1\)As previously noted, when commercial lending makes up less than 20% of the total loan portfolio, the CAR (the amount of equity a credit union must hold) for a commercial loan is twice what it is for a residential mortgage loan. Above this proportion, the risk weighting increases to four times. So in order to do a commercial loan, a credit union has to hold four times as much capital in equity which means that it cannot lend as much. These restrictions are quite onerous for the smaller institutions with their limited capital bases. The greater the overall risk weighting in the credit union's lending, the greater the capital requirements. Therefore
Bread and Roses, that wish to actively pursue CED lending, these limits are very confining.

But for the majority of credit unions the restrictions have very little impact as most do not approach the maximum (Tim Burns, personal communication, 29 July 1993; Richard Thomas, personal communication, 3 August 1993).

6.2.4 The Erosion of Traditional Credit Union Values

As credit unions have evolved into full-service, professional, competitive financial institutions, they have adopted the culture, and many of the practices and values, of the chartered banks. Traditional credit union values such as social and economic transformation, co-operation, mutual aid, self-help, member participation, and the importance of "community" have been eroded.

The American Banking Association argue[s] that credit union members have allowed their institutions to drift away from the ideals of the credit union movement in order to attract more customers, offer more services and compete with the banks. "[C]redit unions have become large, impersonal institutions interested primarily in growth [and profitability]," states an ABA booklet on credit unions (Ellmen 1989:6).

This evolution in credit union culture means that despite their democratic, co-operative structure, credit unions no longer share the same values as CED.

6.2.5 Lack of Member Commitment

One of the main impediments to credit union involvement in CED is a lack of member commitment to broader social goals. Credit union members are not interested in seeing their credit unions pursue a CED agenda. The 1991 Image Survey commissioned by

there is a very strong incentive to keep the risk down, otherwise the credit union has to lend fewer dollars.
B.C. Central Credit Union found that convenience, personal service, and interest rates are the reasons people give for choosing a financial institution (Points of View Research & Consulting Ltd. 1991). "Investment in the community" appears much further down the list of important characteristics in a financial institution. People join credit unions because they want efficient, cheap financial service, not because they want to work co-operatively or to help their communities (MacNeil 1987:6). The average member (or customer as s/he is now called) is not interested in community investment--particularly if it affects profitability. If another bank or trust company can provide services more cheaply, members are quite willing to give them their business.

This lack of customer loyalty, combined with the increasingly sophisticated financial service needs of consumers, makes for a highly competitive industry. To survive in this environment, credit unions must provide an ever-widening array of financial services at competitive rates--or risk losing business (market share). So credit unions must devote a great deal of time, energy and resources to matching or surpassing their competitors, leaving fewer resources for the pursuit of other activities such as CED. In the absence of a change in consumer attitudes, this situation is not likely to change.

The competitive nature of the financial services industry is a real impediment for those credit unions that wish to engage in CED lending, as Jill Kelly, the manager of CCEC Credit Union points out below:

In the early days of the credit union, we thought that once we were bigger, we would be able to branch out into more CED activities. Instead, the banking environment is becoming more competitive, with higher expectations from our members. It is clear that the credit union must concentrate on being a good credit union, and [that] the ancillary [CED] activities be handled [in] another way (Kelly 1993).
The competitive climate in which credit unions operate makes it very difficult for them to pursue social goals—especially if these affect the financial bottom-line. As discussed earlier, CED lending is costly and time-consuming, so engaging in it might affect the profitability of the credit union. Given the attitudes of members, this is likely to affect the credit union's competitiveness.

If providing technical assistance for CED affects the length of lines or the profitability of the credit union, will members stay (Pieter van Gils, personal communication, 15 July 1993).

In the absence of a clear commitment from the membership, credit union managers will be reluctant to adopt CED strategies. In the current environment, a credit union runs the risk of losing members if its CED activities affect its ability to provide competitive services.

6.2.6 Tension Between Social and Economic Goals

Credit unions that engage in CED face the difficult task of melding economic and social goals. Striking an appropriate balance between the goals of profit, of low-cost services to members, and of community development, is very challenging and produces considerable tension (Perry 1993). The issues are not easy ones. How does an organization like a financial institution, that lives in a highly competitive market environment, meet its social and community goals? How can a (is it possible for a) credit union fulfil a mandate as a community institution and still compete in a global marketplace?

Don Alexander (personal communication, 3 May 1993) refers to the conflict that arises in addressing these kinds of questions as "a war of two souls" and identifies it as a problem for a credit union that is trying to become more socially-responsible while remaining financially viable and fiscally conservative. Tension can arise between those in the credit
union that believe in social role and those who are most concerned with the credit union’s financial performance and competitive position.

6.2.7 Conservatism of Credit Union Staff

One of the greatest impediments to credit union involvement in CED is the attitudes of credit union staff. Credit union managers and administrators are recruited primarily because of their technical competence in financial management and banking. Getting them to buy into CED is very difficult because they have a strong market economy perspective. Like their colleagues in banks, credit union managers tend to view CED with a great deal of scepticism. They do not consider it to be a valid economic development approach.

6.2.8 Lack of Vision

Another very considerable barrier to credit union participation in CED, is a lack of vision on the part of credit union leaders and members. Managers and Boards tend to view the potential for credit union involvement in the community in a fairly limited manner. For them, the sole mission of the credit union is to provide friendly, cheap financial service.

Few of the people within the credit union system—that is, the key players such as the general managers and elected members—have a vision of credit unions that has a real economic/political analysis associated with it. Or alternatively sees the credit union as much more than classic financial service provider. People do not see credit unions as activists; they see them as an important force simply in retail [banking] (Ross Gentleman, personal communication, 15 July 1993).

Before credit union involvement in CED can proceed, credit union management and Boards have to be convinced of the value of broadening the credit union mandate to include revitalization of a community’s economic base. For this to happen, "for credit unions to become involved in CED requires first a re-examination of the rationale for being a credit
union and the creation of a new mission statement, [in other words] a whole process of re-
vitalization" (Stewart Perry, personal communication, 26 July 1993). This kind of re-

examination, while occurring in a few pockets, is not at all widespread.

Keith Jardine argues that a broader vision of credit union involvement in CED, along
the lines of Coady's "co-operative commonwealth," was never embraced by the membership
in B.C.:

There was no real popular embracing of Coady's ideal. Creation of credit
unions was very much a practical issue of access to credit. The credit union
was for most people simply a way to access credit as banks were very
reluctant to grant most people loans...Credit unions grew and prospered not
because members had a co-operative vision, but because the credit union
represented a practical instrument for meeting the[ir] [individual] needs. This
pragmatic approach has set the tone for [the] credit union [movement] today
(Jardine, personal communication, 30 May 1993).

In sum, the culture in B.C. credit unions is very much oriented towards servicing
individual needs. There is no history or current logic around dealing with the needs of
members collectively or the needs of the community as a whole, which could then generate
strategic involvement in CED (Keith Jardine, personal communication, 30 May 1993).

6.2.9 Size

While the trend within the credit union movement is towards larger institutions, there
is still considerable variation in the size of individual credit unions. Whether a credit union
is large, or whether it is small, its size affects its ability to participate in CED. When a
credit union is small, it has fewer human and financial resources to devote to CED. On the
other hand, when a credit union is big, it has a more diluted and heterogeneous bond of
association and a more rigid, bureaucratic corporate structure, both of which make engaging
in CED more difficult.
The majority of credit unions in B.C. are quite small—under $50 million in assets. For them, finding the additional resources to participate in CED, is problematic. In the smaller credit unions, there are not a lot of excess resources to channel into CED, unlike a credit union the size of VanCity that is able to channel $2 million into the VanCity Community Foundation. Dividend diversion is much easier for a credit union the size of VanCity than for an institution a fraction of its size. Even small dollars are big percentages [for] small credit unions (Richard Thomas, personal communication, 3 August 1993).

Small credit unions are also constrained in the amount of staff time they can devote to CED. The general manager is often the marketing manager, the chief financial officer and the human resources manager as well. There is a limit to how much this person can take on outside the daily work of managing the financial institution, particularly in the smaller credit unions (Richard Thomas, personal communication, 3 August 1993). Melanie Conn, one of the directors of CCEC Credit Union, and Jill Kelly, the manager of the credit union, both identify stretched staff resources as a problem. They feel that the small size of CCEC means that it has difficulty doing the kind of CED outreach work it would like. It just cannot spare the staff time to do more extensive CED development work (Melanie Conn, personal communication, 31 July 1993; Kelly 1993).

Richard Thomas from B.C. Central Credit Union, suggests that it may make more sense for a smaller credit union to do CED the way that CCEC does it— as its raison d’etre—so that the credit union can devote as many resources as possible to it.

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2 It is important to note, though, that compared to banks, all credit unions, even the largest ones, are very small. So compared to the banks, the ability of any credit union (large or small) to engage in business development (such as CED), is restricted. Banks are able to do venture capital development (an area closed to credit unions), because they have the legal departments, the internal staff capacity, and the access to capital markets to support this kind of lending (Ross Gentleman, personal communication, 15 July 1993).
It almost makes more sense to do [CED holistically] than to try to grow a small business lending capability off to the side. Because if the credit union is small, virtually all the resources have to go into small business lending in order for this type of lending to be effective (personal communication, 3 August 1993).

The larger credit unions, with multiple branches and a head office, are more like banks and less like community institutions. So while larger credit unions may have more resources to devote to CED, they are less likely to do so. There are two reasons for this: dilution of the bond of association; and a rigid corporate structure.

In the larger credit unions, the bond of association has been diluted through amalgamation and expansion. Consequently the membership is more heterogeneous, and the bond of association no longer unites members in a meaningful way. Without a basis for cooperation, (i.e., a common bond), getting members to see beyond their individual self-interest is more difficult. Moreover, at the branch level, where a sense of community is more likely to be found, decision-making power is very limited.

The rigidity of the decision-making structure in the large credit unions is another impediment to CED. CED requires institutions that are responsive, flexible and adaptable. In the large, multi-branch credit unions decisions are made at head office and not in the front-line community branches. This centralized decision-making structure is rigid and slow to change.

6.2.10 Centralization versus Autonomy

Certain support services for credit unions involved in CED, such as provision of information, loan syndication, risk-pooling, and staff training, may require more resources than are available to the average credit union. These services are best delivered through the credit union central. Some individual credit unions will be quite resistant to Central taking
on this kind of a role. Centralization is a big political issue within the credit union movement. The degree to which individual credit unions remain autonomous versus the degree to which they market products jointly or serve members from other credit unions, is a matter of great dispute. So defining a CED support role for Central may be very challenging. To the extent that individual credit union participation hinges on Central's participation, the political debate about centralization will interfere with credit union participation in CED.

6.2.11 Lack of Practical Examples

Another barrier to credit union participation in CED is a lack of information that is relevant to the particular situation facing deposit-taking institutions like credit unions that have a responsibility to protect these deposits. There is very little specific information available to the credit union manager that wishes to engage in CED. Many of the best examples, whether successful or not, have never been written up and compiled in a form that is useful for managers. Credit union leaders need concrete examples (case studies and detailed descriptions) of what has been tried, what has worked and why or why not. Without a better understanding of the whole field of CED financing, as well as a clearer picture of constraints and how these can be overcome, credit union managers will be reluctant to participate in CED lending. Information requirements include: financing needs, mechanisms and models that have worked, ways to reduce risk, as well as human resource needs.
6.1.12 The Elizabethan Act

In the United States, CED is considered a charitable activity and institutions that engage in CED are eligible for tax-exempt status. The situation is very different in Canada. CED is not eligible for charitable status. The Elizabethan Act defines the four pillars of charity as health, education, arts and poverty alleviation. For CED to qualify for tax-exempt status, it has to help "eradicate poverty through education" and be directed at groups--there can be no direct individual benefit from the activity. This definition excludes a tremendous amount of CED activity.

The restrictions are problematic from the perspective of the credit union movement because they limit the kinds of CED activities a charitable subsidiary, such as the VanCity Community Foundation (VCCF), can finance. If VCCF wishes to retain its charitable status, it can only finance those CED activities that fit the very limited definition. For some kinds of subsidiaries--those that provide significant levels of technical assistance, for example--the charitable tax number is essential because it makes them eligible for donations and grants.

In the United States where there are no such restrictions, community development credit unions and their subsidiaries (such as the Self-Help Ventures Fund and the Centre for Community Self-Help) have non-profit status which makes them eligible for grants, donations, and low-cost capital--all of which make their CED work possible. As Canadian credit unions explore ways to undertake CED through subsidiaries, this Act will prove quite limiting.

3 The VanCity Community Foundation has found the Act somewhat restricting. When it was first created, the Foundation had to frame its mission statement very broadly so as not to run afoul of the Act. Furthermore, VCCF had to create another Foundation, the Greater Vancouver Assistance Foundation, to undertake its peer-assisted lending work because there was concern that Revenue Canada would not consider the activity charitable (David Driscoll, personal communication, 15 July 1993).
6.3 Rationale for Credit Union Participation in CED

Chapters IV and V demonstrated that there is potential for credit union participation in CED. However, many credit union managers and directors will have to be shown that CED is a rationale development strategy before they will consider becoming involved. Why should credit unions participate in CED? The question is a relevant one because credit unions have built their success and reputations on consumer and mortgage lending. Why would they want to change this formula by introducing CED lending—a more risky activity and one in which they have little expertise? There are some very compelling reasons and these are discussed below.

6.3.1 New Markets

Credit unions, particularly in urban centres, have come to rely on consumer and mortgage lending for the bulk of their lending business. For the past 60 years, these markets have represented a very stable and secure source of profits for the movement. There are indications, however, that these markets may no longer be as secure as once thought.

A fundamental shift in values is taking place among the Canadian population with important implications for the consumer lending market. The conspicuous consumers of the 80’s—individuals with large disposable incomes to spend on their every want—are being displaced by more community-oriented individuals with reduced earnings and more modest expectations. This shift in values is considered permanent (a structural rather than a cyclical change) and is expected to affect how Canadians spend their money and their time in the 90’s

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4 Values such as thrift, the importance of community, satisfaction of needs over wants and the benefits of collective action are gaining ascendancy over values of acquisitiveness, individual gain, consumerism and competition (Beslin 1992/3:5).
What this shift means for credit unions is a decrease in the demand for consumer loans.

[T]he reduction in personal income levels has affected the middle classes severely. Combined with a change in buying habits and high debt levels, this likely will mean an important segment of credit union members will find themselves in a weakened economic position when the recession ends. Planning for the traditional post-recession boom in consumer lending, for example, is unrealistic this time (Beslin 1992/3:5).

Nor is the mortgage lending market so solid. In some communities and cities, it is not the guarantee it once was. For example, credit unions in Calgary and Edmonton had to be merged in 1987, after they started to rack up losses on their mortgage loans as a result of the collapse of the Alberta real estate market (Ellmen 1989:24). Calgary and Edmonton are not the only centres to experience a real estate collapse. In the late 80's, Toronto experienced a 25% decline in its housing market.

For their long-term strategic planning, credit unions must ask themselves what happens if mortgage lending--their primary source of income--dries up. Where will they find new borrowers? This is a situation that more and more credit unions will be facing, particularly in resource-dependent communities (Keith Jardine, personal communication, 30 May 1993). Credit unions can either act now from a position of strength or they can wait until they are compelled by external forces to develop new areas of lending.

Community economic development offers credit unions new opportunities for

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5 This question may seem premature to B.C. credit unions. In 1993, the system as a whole experienced its fifth consecutive year of record profits (BCCCU 1992). The fact that the system is strong right now is added reason to act. It is better for credit unions to plan ahead (to seek new markets) and to act from a position of strength. The trends are there, it is just a matter of when they hit.
investment. The CED "niche" is one with a strong potential for growth. By participating in CED lending, and playing other support roles, credit unions can secure a stable market for investment for the longer term (Jardine, date unknown).

One of the markets to be served as part of a CED support program is the voluntary, or non-profit, sector. This sector (comprised of non-profit organizations, charities, co-operatives, etc.) is a very important player in CED. Although few financial institutions have recognized the fact, it has special service needs and represents tremendous market potential. For credit unions looking for new customers and new markets, the non-profit sector is worth courting. The sector, comprised of thousands of community-based organizations and agencies, and their many employees, volunteers, and members, represents a sizable market "niche." More than 20% of the nation's GNP flows through the voluntary sector (Gordon 1987b:4).

Another important player in CED is the small- and very small-business sector. It, too, presents an important market opportunity for credit unions, especially if they can develop the appropriate lending and financial products (Orser, Riding and Swift 1992). As this sector is one of the fastest growing segments of the economy, credit unions should consider ways of serving it.7

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6 Many communities are discovering that "what outside investors bring in, outside investors take away" so they are searching for ways to use indigenous resources such as labour, capital and business know-how to ensure community survival (Gordon 1987b:4). Because the CED-approach to development is being adopted by more and more communities, it has tremendous growth potential for the credit union movement.

7 The small-business sector is responsible for 90% of all new jobs created in the country (Bellan 1993; White 1993). Unlike large multi-nationals and governments that have been downsizing and laying off thousands of workers, small businesses are actually creating new jobs (White 1993). This sector is a growing, vibrant part of the economy, yet it is currently not very well-served by the banking community. The dissatisfaction with mainstream financial institutions expressed by small, and very small, business owners suggests that there is scope for
6.3.2 Survival--Healthy Local Economy = Healthy Credit Union

In communities faced with serious economic decline and massive unemployment, the case to be made for credit union participation in CED is very compelling. Simply stated, it is a matter of survival! During difficult economic times, members experience a decline in personal wealth which translates into decreased demand for consumer and mortgage loans. In the extreme case, people are forced to leave the community altogether and it may disappear completely. Either way, the prognosis for the credit union is serious. Without a healthy, economically viable community, the credit union has little chance of survival. "So it makes sense from both a civic and a financial point of view for credit unions to get involved in anything that promotes the viability of the local economy (Richard Thomas, personal communication, 3 August 1993)"--implementing a community development lending program, for example.

[C]redit union[s] can't pick up and leave. They don't have the luxury of closing up shop and going elsewhere. Because of this, they have a real interest in the restructuring of the economy and a real motivation to work closely with community leaders, community service organizations, and their own members to ameliorate some of the consequences of the restructuring (Gary Gillam quoted by Ellmen 1989:11).

6.3.3 In the Service of Members

A further rationale for credit union participation in CED is evolving member needs. The credit union movement has always prided itself on the quality of service it offers to its members. Over the years, the movement has demonstrated a great deal of creativity and flexibility in responding to the changing needs of its membership. Up to now, members' credit union participation in supporting this increasingly significant sector of the Canadian economy (Orser, Riding and Swift 1992).
borrowing needs have been largely consumer-oriented--centred on self and family--and have been met through individual consumer and residential housing loans. But as jobs become scarcer and economic restructuring continues, members' needs are becoming more complex. They are increasingly tied to the health of the local economy and community. The credit union system must find a way to meet these new needs. Participating in the revitalization of the local economy so individuals can again feel secure in their communities is an important way to do this.

6.3.4 Revitalizing the Spirit of the Movement

The credit union movement and the CED movement are based on the same social values--mutual self-help, democratic control and co-operation (CUCO 1987:4). A more active involvement in CED will encourage the movement to renew its commitment to these values. In addition the move to support CED will attract a new generation of credit union leaders and "social entrepreneurs," who can help keep the movement vital in the 1990s (CUCO 1987:4). There is also growing evidence that adherence to these kinds of social goals and values may provide credit unions with a competitive advantage.

6.3.5 The Credit Union "Difference"

With the deregulation of the banking industry, the financial services market has become much more homogeneous. Banks, trust companies, and credit unions have become largely indistinguishable one from the other. Boutilier (1988:17) has suggested that in order to compete for consumer loyalty, financial institutions will have to stake out particular
One of the niches he identifies is "community," suggesting that with a return to "family and community values" among the baby-boomers, a perfect market opportunity is opening up for credit unions. Serving the interests of the broader community through CED support programs gives credit unions the opportunity to differentiate themselves from other financial institutions and to garner member loyalty and commitment.

In order to compete with the larger banks, credit unions must have a strong public image that differentiates them from other institutions. By taking an active leadership role in helping communities, the movement can clearly demonstrate "the credit union difference" to its members and the general public (Gordon 1987b:4). Being active in CED gives credit unions the means of enhancing their profile and credibility within their communities (Jardine, date unknown).

In the current financial services market, consumer loyalty is very difficult to retain. Keith Jardine believes that a credit union's involvement in CED has the potential to "hook" members, that is, to keep them committed to the credit union. "When people begin to see that there is some real lasting [community] value in putting their money in a credit union, then maybe they'll stick around (personal communication, 30 May 1993)." Certainly, with the change in values mentioned earlier, demonstrated commitment to the community may well become a competitive advantage.9

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8 Meeker-Lowry (1988:119) points to this as a viable business strategy for small banking institutions in the U.S. "A viable business strategy for small banks is to focus on a particular market segment/niche in which they have some advantage. By exploiting this niche and serving it better than anyone else, the bank can successfully defend its turf against even its largest competitors."

9 The Canadian Credit Union Environmental Scan 1992-93 points out that consumers in the 90's will demand full accountability from the corporations they do business with and the institutions they support. In particular, consumers will expect businesses to help find solutions to broader societal problems such as literacy, violence, and the economic carnage wrought by
6.3.6 Growing Importance of "Social" Investment

Over the past ten years, the field of "socially responsible investing" has taken off. Now more than ever, individuals and organizations are willing to use their resources to support economic development activities (Wright 1991). Involvement in CED is one way for credit unions to make themselves attractive to the social investor. Ellmen (1989) advises people interested in social investment to consider very carefully where they place their money. He points to credit unions as one option. A commitment to CED on the part of a credit union would likely increase its value as a vehicle for social investment. (For more information on the phenomenon of "social investment" see Meeker-Lowry 1988; Ellmen 1989; and Trunkey 1990.)

6.4 Overcoming the barriers: What is Needed?

As pointed out in section 6.1, there are a number of factors that restrict credit union participation in community economic development. Two of the most significant are: the lack of commitment to and interest in CED within the movement; and the fact that credit unions are deposit-taking institutions and CED lending is costly and risky. In order for credit unions to engage in CED both of these issues must be addressed. Firstly, credit unions need to view their role in the community more broadly. Secondly, credit unions must find ways of reducing the costs and risks associated with CED lending. This can be accomplished by attracting new sources of capital and finding ways to reduce risk.

the depression (Beslin 1992/3:7).
6.4.1 Broader vision

In order for credit unions to participate in CED, they must develop a different vision of their role in the community.

The first step is seeing themselves more broadly as economic catalysts in the community. I am talking about a paradigm shift where instead of seeing themselves as savings [and personal service] clubs, they see their function as encompassing a much broader range of possibilities in the local economy (Keith Jardine, 27 July 1993).

Credit unions must recognize that they have a significant role to play in revitalizing local economies, and in particular, in supporting the evolution of alternative economic structures. But in order for them to do so requires a "re-examination of the rationale for being a credit union, the creation of a new mission statement and a whole process of revitalization (Stewart Perry, personal communication, 26 July 1993)."

Leadership is an important driving force for this process, leadership from Board members, committee members, and staff, who share the broader vision. The importance of a visionary leadership cannot be over-stated. For a credit union to embark on a new path takes the creativity and imagination of a group of innovators--people with a commitment to change and a vision of how it might come about.

Another important driving force for a broader vision is a membership that is committed to CED. Getting members to support credit union participation in CED will be a challenge for the movement. There are a number of ways that an individual credit union can go about developing a constituency for CED. These include: highlighting CED success stories in its newsletter, with an emphasis on how community needs are being addressed;

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10 VanCity Savings Credit Union and Caisse Populaire Evangeline illustrate the impact visionary leadership can have on a credit union; the former due to a progressive board, the latter to the vision of its previous general manager. Leadership has also been essential to the community development banking movement in the United States (see section 6.5.2).
setting up CED information booths in its foyer; and annual awards for CED initiatives that contribute to community economic well-being. A credit union could also organize and publicize to members a meeting to discuss credit union policy with respect to social and economic development. Community leaders could be invited to make presentations. Credit union centrals can contribute to the effort by initiating an aggressive media and public relations campaign, profiling CED success stories and the importance of CED to community survival.

6.4.2 New Sources of Capital

CED lending is very costly. In order to be able to provide these kinds of loans, credit unions require new deposits of capital—preferably at below-market rates—as well as donations and grants, both of which help to cover the costs of providing technical assistance and loans to first-time borrowers and higher-risk ventures.

One way for a credit union to attract new deposits is to create a special below-market deposit program that is tied to investment in the local economy. Capital invested in these accounts would be earmarked for projects, initiatives and enterprises that revitalize the local economy. Groups that might invest in this kind of a program include: community groups, charities, non-profits, and co-operatives.

The costs of doing community development lending are higher than the costs of traditional lending, in large part because of technical assistance requirements and the

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11 The VanCity Community Investment Deposit Program is an example of this type of investment fund. "Roses" accounts at Bread & Roses Credit Union serve a similar function.

12 The willingness of these groups to put their money in the credit union may depend on whether other special services are available and whether the deposit instrument pays a market or below-market rate of interest.
administrative costs of these types of loans. The interest earned on below-market deposits helps to pay for this assistance. Governments, and institutional investors, such as churches and private foundations, are likely sources of this kind of low-interest capital. The individual social investor is another likely source of deposits. If the deposit program is properly designed, it may even be RRSP-eligible (as is the case with the VanCity CID program). Attracting the attention of potential social investors is very important. In order to do this, a credit union can sponsor a program of "investor forums" to inform and educate potential investors about its community investment activities (Swack 1987:84).

Grants and donations are another source of capital for CED activities. These can be raised from individual credit union members and from government. There are a number of

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13 The community development banks in the United States, of which Self-Help is an example are funded to a significant extent by low-cost deposits from institutional investors (Wright 1991; Minsky et al. 1993). In order for credit unions to be able to receive these kinds of deposits in Canada, regulations about non-member deposits would need to be relaxed.

14 There are two kinds of social investors--those who want to "do well while doing good" and those who seek to create an alternative economy through their investment. The first type of investment is called "screened" or "ethical" investment. It involves applying either positive (good history of employee relations; positive working environment for women; good environmental record) or negative (investment in South Africa, weapons manufacturing, or work in the nuclear industry) screens. The goal is to find companies that pass the investment screens and that provide an adequate rate of return. There is another form of social investment variously referred to as "investing in social change", "investing in alternatives" or simply, "alternative investment." Social investors who choose this approach are searching for ways to fundamentally change the economy through investing in alternative institutions such as co-operatives, non-profit organizations, and community businesses, for example (Ellmen 1989). The latter investors are the ones that credit unions need to attract. They are also more likely to accept a lower rate of return from their investments in exchange for a social return.

15 The idea is to provide information about social investment opportunities to those already identified as potential investors, but also to disseminate information more broadly to a wide range of individuals and institutions. The credit union should educate people not only about the specific investment opportunities it offers, but about the needs being addressed and the nature and accomplishments of the kinds of organization and projects that it helps to finance (ICE 1987:2,4).
ways to raise donations from the membership. One approach is a "dividend check-off" whereby members allocate all or some portion of their personal dividends to a specific activity or project. Another mechanism is called a "transit levy." When a member pays service charges the sum is rounded up as a "tax" or "levy" to help fund a certain activity--CED for example (VanCity Savings Credit Union 1993, Group II). Alternatively, a certain proportion of the total dividends can be diverted to a particular project or activity (as is the case with the VanCity Community Foundation and the Baie Acadienne Venture Capital Group). Contributions made in this way can be used to subsidize the costs of CED lending. Government and private institutional investors may also provide grants--if there is an appropriate vehicle to direct the resources to CED.

6.4.3 Reducing Risk

CED lending is generally more risky than mortgage and consumer lending. As deposit-taking institutions, credit unions are highly risk-averse organizations. In order to participate in CED, they must find ways of reducing the level of risk associated with lending to first-time borrowers, small enterprises and community-based organizations. The following are ways that a credit union can reduce risk:

* Technical assistance and management advice as well as close supervision and monitoring thereby establishing an early pattern of repayment and the ability to anticipate problems before they arise.

* A loan guarantee from government or a community-based loan guarantee fund. A loan guarantee enables a credit union to make loans that would normally have an unacceptably high risk. The guarantor takes on all or a portion of the risk of the loan, thereby freeing the credit union to make the loan at an acceptable risk level.
* Below-market community investment deposit programs. The depositor accepts a lower interest rate thereby giving the credit union a larger margin with which to make riskier loans. Riskier loans are more costly because they result in higher loan losses and loan servicing is costly. The interest earned on the below-market deposits provides the buffer to create higher loan loss reserves.16

* Investment instruments (e.g., venture capital funds) that are capitalized with uninsured deposits and donations. The highest risk loans are made from this fund. Having a separate pool of capital like this also provides a mechanism for making risky loans using insured deposits. The loan is divided into two parts—a risky part and a safe part. The risky part is made with money from the uninsured loan pool and the safe part is made by the credit union from insured deposits. These investment instruments can be segregated entirely from the credit union in the form of subsidiaries.

* Sharing risk with other credit unions through loan syndications: each credit union takes a part of the loan with Central negotiating the terms.

* Donations/grants for loan loss reserves.17

6.5 Organizational Development and Capacity-Building

The theme of this section is how credit unions can build their own institutional and staff capacity to engage in CED. The factors involved in this are:

* New institutional arrangements;

* Staff training and development;

* Planning and program development.

16 A credit union has the choice of subsidizing the cost of credit or subsidizing risk (i.e., increasing access). Self-Help Credit Union has chosen to increase access to capital (make riskier loans) rather than lowering the cost of capital. Since both options cost the lender, it can only afford to choose one. The problem facing most commercial enterprises is a lack of access to capital at any price. The cost of capital does not significantly affect the profits of most commercial borrowers (low-income housing borrowers being the exception). Therefore, lowering the cost of credit is an ineffective application of subsidies. A more effective strategy is to subsidize risk to reach firms that are not served by conventional lenders (Schall 1991:18-19).

17 SHCU has also received millions of dollars in appropriations from the North Carolina General Assembly in the form of loan loss reserves. These funds cannot be lent out directly; their purpose is to "support" a certain type of lending, in this case, small business lending (CCSH 1993).
6.5.1 New Institutional Arrangements

Institutional change is needed if credit unions are to engage in CED (David Driscoll, 15 July 1993). Three components are discussed in this section: the establishment of subsidiaries, a role for branches, and institutional development within credit union central.

A. Subsidiaries

One approach that a number of credit unions have taken is to segregate their CED activity from their retail banking operations in independent, non-depository subsidiaries. There are a number of advantages to this approach. Separating risky activity (a very common banking practice) enables the credit union to engage in risky CED lending without affecting its capital adequacy ratio. A subsidiary is not subject to the same lending restrictions as a credit union so that it can be more pro-active in its development activities. Depending on its structure and function, a subsidiary may be assigned a charitable tax number which enables it to issue tax-receipts for donations and grants. A subsidiary is a way for a credit union to do higher risk lending using insured deposits (the subsidiary takes the risky part of the loan, the credit union, the secured part). Lastly, a subsidiary represents a means of concentrating resources and energy in a way that is not possible within a retail banking institution whose primary concern is the delivery of low-cost financial service to members. Lastly, a subsidiary is a laboratory for CED—a place to experiment with innovative ideas, and if these ideas are successful, to pass them on to the credit union.

Credit unions interested in participating in CED should consider establishing independent subsidiaries to carry out their work.

Five very different subsidiaries were described in Chapter 4: Baie Acadienne Venture Capital Group, Centre for Community Self-Help, Self-Help Ventures Fund, VanCity
Community Foundation and VanCity Enterprises Ltd. In terms of replicability, there are problems with all of these. The Baie Acadienne Venture Capital Group has been inactive for a number of years due to a series of bad loans. The VanCity subsidiaries are too young to evaluate properly. Moreover, VanCity is so much bigger than other credit unions. The majority of credit unions could not afford the kind of dividend diversion VanCity employed to capitalize the Community Foundation and Enterprises. On the other hand, Bread & Roses and CCEC, both of whom are small credit unions, are exploring opportunities for creating subsidiaries. This would suggest that establishing a subsidiary is an option for even small credit unions. What will differ is the structure and the size of the subsidiary.

The Self-Help case is an example of a special class of American financial institution called a community development bank (CDB). Three of the CDBs are bank or non-profit holding companies comprised of a federally-insured depository institution and a series of non-depository affiliates. The range of activities carried out by these subsidiaries include: affordable housing development (City Lands Corporation, South Shore Bank of Chicago), employment training and skill development (Neighbourhood Institute, South Shore Bank), higher risk business lending (Self-Help Ventures Fund), and technical assistance (Centre for Community Self-Help). There is a lot that can be learned about the potential structure

18 The four CDBs are: South Shore Bank of Chicago (Shorebank Corporation), Elk Horn Bank and Trust in Arkansas (Southern Development Bancorporation), Community Capital Bank in Brooklyn, NY, and the Self-Help Credit Union in North Carolina (Self-Help Development Bank) (Ad Hoc Coalition on CDFIs 1993:2).

19 Shorebank Corporation has six affiliates. The South Shore Bank of Chicago is a full-service commercial bank. City Lands Corporation is a real estate development company that develops and manages residential and commercial real estate for the benefit of low- and moderate-income residents. The Neighbourhood Fund is a Small Business Administration (SBA)-licensed Minority Enterprise Small Business Investment Corporation. It finances minority businesses with equity investments and long-term subordinate debt. The Neighbourhood Institute is a 501(c)(3) tax-exempt affiliate. It operates economic and social development programs for
and function of subsidiaries from a study of these examples.

Credit unions that want to replicate the CDB model face two barriers. Charity is much more broadly defined in the United States so CED organizations helping individuals can receive charitable donations. In Canada, the definition of charity is much more restrictive. A Canadian CED subsidiary is much more limited in the range of activities it can support, if it wants to retain its charitable status. A second barrier is the fact that there is only a small Foundation movement in Canada. CDBs are supported to a significant degree by the philanthropic community. In the absence of a socially-responsible investment community in Canada, credit unions would probably have to rely heavily on governments for low-cost, long-term deposits.

B. Branches

In the larger, multi-branch credit unions, where decision-making power is concentrated in head office, empowering the branches to do the grassroots work that is so essential to CED is both a challenge and a necessity. Branches are an obvious place to experiment with a CED strategy as they are most directly connected to a "community." However, at present they are limited in what they can do by a lack of both decision-making power and of staff expertise.

A credit union could experiment with giving one or more of its branches (preferably one located in a highly organized and politicized community) the power to pursue a CED agenda tailored to its specific community. The point would be to create an institution that

low-income residents. TNI Development Corporation, a for-profit subsidiary of the Neighbourhood Institute, develops rental and co-operative housing for low-income residents. Shorebank Advisory Services is a consulting firm that offers technical assistance on development banking and other CED strategies (Shorebank Corporation 1991).
would be truly rooted in the community, that would actually work directly with local
community members, almost like a CDC. The key would be to vest the local community
members with the power (Mike Lewis, personal communication, 19 April 1993). Or a large
credit union might consider conducting community consultations via individual branches and
setting up community councils that would have the power to direct individual branch activity.

Implementing such ideas is problematic for two reasons: branch managers are no
more disposed to CED than other credit union employees; and head office and the Board are
very reluctant to relinquish any real power to the branches.

C. Provincial Centrals

Support at the provincial level is critical if individual credit unions are to become
more involved in CED. There are two ways that Central can provide support: either by
establishing a community development office or department within the organization,20 or
by incorporating a separate subsidiary21 to carry out community development support
functions (Gordon 1987a). Both of these approaches would facilitate Central’s work in such
areas as: training, marketing, research, technical assistance and pooling capital (all of which
are described in more detail below). But they would also require a significant investment of
dollars. In order to make this kind of an investment, Central would require the backing of
its member credit unions. At present, this kind of support is not apparent within the

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20 This is similar to the approach taken by the Desjardins Mouvement in Quebec. In 1978,
the Confederation set up a department for co-operative and community development.

21 One possible model for this subsidiary is the National Federation of Community
Development Credit Unions (NFCDCU). This organization plays an important role as a
clearinghouse for information and as a conduit for social investment capital for individual
member CDCUs. The NFCDCU also engages in training, technical assistance, and research.
movement, in B.C. at least. So Central’s contributions will probably have to be more modest.  

6.5.2 Staff Training and Development

In order to participate in CED, credit unions need staff with an understanding of CED as well as expertise in community investment lending. CED lending requires specialized knowledge and skills, strong social commitments and extensive community experience all of which differ in important ways from the skills needed to run conventional financial institutions (Ad Hoc Coalition of CDFIs 1993:8).

For the credit needs of CED to be met, private sector lenders must institutionalize a host of changes. Important among these changes are new kinds of loan personnel. These new loan officers must be familiar with the peculiar needs of non-profit and community-based organizations. They must be familiar with the special characteristics of low income and minority neighbourhoods. They must reflect a special sensitivity to the needs of small business, minority and woman-owned enterprises, and the business and housing development needs of traditionally disinvested communities (Rosen 1988:14).

In order to operate an effective community lending program, credit union staff must have expertise that extends beyond the skills normally associated with lending. Staff should have:

a) enough familiarity with community development projects and community needs to evaluate loan applications and identify worthwhile projects;

b) the skills to assist the applicants in matters of financial planning and capital mobilization;

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22 Keith Jardine (personal communication, 27 July 1993) pointed out that "[o]n a pragmatic level, activities that emphasize Central’s role as a catalyst and as a co-ordinator--basically the things that don’t require significant financial commitment--are going to be the most popular...And they would be a really good starting point."
c) the experience to recognize areas where applicants need more specialized technical assistance;

d) contacts with local sources of technical assistance so that the credit union can arrange for applicants to get the assistance that they require (ICE 1987:2.16).

This means that in addition to technical expertise in community lending (in itself a special skill), general managers, branch managers and loans officers should have special knowledge of the needs and strengths of the community (or communities) they serve.\textsuperscript{23}

Acquiring staff capable of combining these kinds of skills is not easy. The current generation of credit union managers and loans officers for the most part do not have this expertise. Credit union involvement in CED will only be possible if a new generation of directors, managers, and loans officers can be recruited and trained to operate CED programs and initiatives (Ad Hoc Coalition of CDFIs 1993:8). This requires a long-term strategy for human capital development. Possible elements of such a strategy are listed below:

* Credit unions could recruit individuals with a more diverse range of skills than is normally sought in filling staff positions. Community development experience could be a prerequisite.

* A credit union could develop a training program that fosters an appreciation of CED. The program would include: introductory sessions on CED philosophy and principles; case studies of CED projects and institutions; presentations from local community groups, non-profits, co-operatives and other CED businesses; and field trips to various CED projects and enterprises.

* Workshops and seminars on such topics as conducting community consultations, surveying community needs and resources, resolving group conflict and democratic group process are needed to ensure that credit union managers have the skills to encourage the participation of local community groups.

\textsuperscript{23} This includes specific knowledge of the needs of the different CED institutions.
* One of the best ways for credit union staff to familiarize themselves with CED institutions is through direct hands-on experience. Individual staff members could do internships with local CED businesses, community-based and non-profit organizations, and co-operatives as part of a secondment program (Don Alexander, personal communication, 3 May 1993).

* Professional development programs are another way for the movement to acquire knowledgeable staff. These programs could be delivered by both provincial centrals and national organizations.24

As part of a long-term strategy to ensure that the credit union system has access to high quality human resources, credit unions (along with Central) should work with community colleges and universities to ensure that community development, community enterprise and social entrepreneurship are included in the business and commerce programs. Credit unions should lobby to have specific topics such as social accounting, social and alternative investment, co-operative business development and community development banking covered under the curriculum.25

Many credit unions lack the resources to develop their own individual training programs or to compile the required information. For this reason, credit union centrals have an important role to play in designing and delivering the necessary programs for training credit union personnel. There are a number of other initiatives that Central could undertake in addition to the ones already mentioned:

24 For example, the Credit Union Institute of Canada has a certificate program in Management Studies equivalent to the one available to bank employees through the Canadian Bankers' Association. The program could have a compulsory "community lending" module. Subjects to cover would include: financing requirements of community-based and non-profit organizations, community businesses, small businesses and micro-enterprises; financing mechanisms and tools; "creative" lending techniques--being creative about collateral and equity requirements, terms of repayment; brokering in other partners, etc. Provincial centrals could also offer courses on community investment lending.

25 B.C. Central is working with the Canadian Co-operative Association (CCA) to design co-operative teaching materials for B.C.'s public schools (BCCCU 1992:15).
* Invite CED practitioners to speak at Central’s AGMs;
* Design conferences, seminars, and workshops to be delivered at the local level (at AGMs or as separate events);
* Develop and distribute CED policy and procedure manuals;
* Provide audio-visual aids such as educational videos (e.g., Credit Union Central of Saskatchewan’s video, "A Reason to Believe." See section 4.5.3);
* Work with schools, community colleges and universities to incorporate CED into the curricula of the business and commerce programs;

In terms of government support, there may be a role for the provincial government in subsidizing the cost of developing and delivering training programs (Ad Hoc Committee on CDFIs 1993). In developing the materials for courses, seminars and workshops on CED lending, the credit union system should take advantage of the experiences of CCEC, Bread & Roses, and other credit unions that have been involved in CED.

For an individual credit union, ensuring that Boards, staff and volunteers are familiar with the basic principles and key concepts of CED is very important. The following are some ways for this to happen (CUO 1987:4):

* Identify groups in the community that are working on CED issues (such as social planning councils, social housing groups, job creation and training programs, community centres, community businesses, etc.). Arrange for managers and directors to visit several local projects so that these people can become more familiar with CED goals and philosophy.
* Invite speakers from these groups to make presentations at Board and committee meetings and AGMs;
* Invite speakers from other credit unions engaged in CED to make presentations to Board and members’ meetings;
* Organize a presentation on CED at Board, staff, and members’ meetings.
6.5.3 Planning and Program Development

CED is a grassroots, community-based process that is centred around the concept of community members actively participating in decision-making. In order to honour this approach, credit unions must change the way that they do their planning and program development. In order to engage in CED, a credit union has to develop new program areas.

There are a number of ways for credit unions to get new ideas, two of which are: through community consultations and through research.

A. Community Consultations

If a credit union wants to engage in CED, then it must understand the community it serves. The credit union must know what assets the community has, what its needs are, what its aspirations are. Most importantly, the credit union must determine what the community expects of the credit union. To answer all these questions requires a considerable amount of consultation. Credit unions should engage in extensive consultations with community groups and community activists to answer these questions. Consultations could take the form of community workshops, educational forums, focus groups, interviews with various groups and service agencies, and informal discussions. That a credit union develop good working relationships with these groups and that these groups be given the opportunity to have input into the credit union’s planning processes is essential. The problem with implementing this suggestion is the fact that most credit unions are only structured to be accountable to their membership. They have yet to find ways of being accountable to the broader community.

Surveying the community is another way for a credit union to do outreach. Surveys can be carried out formally or informally. Either way, they provide a credit union with
information on the needs of particular constituencies within its membership or within the community. Surveys can be conducted by mailing out questionnaires, over the phone, or on-site in the credit union.

B. Research

Credit unions have need of information in order to engage in CED including:

* Information on credit union involvement in CED;\(^\text{26}\)

* Information on financing CED;\(^\text{27}\)

* Information on the specific credit needs of particular CED institutions (worker co-operatives, consumer co-operatives, housing co-operatives, CDCs, community businesses, sole proprietorships, non-profits) so that lending programs can be tailored to their needs;

* Information on the resources that exist in the community to assist in CED;\(^\text{28}\)

* Information on the local (both formal and informal), regional and provincial economies (Pinney 1986);\(^\text{29}\)

\(^{26}\) Credit unions need information from two perspectives: what is being done and what more could be done. They require information on what other credit unions are doing, including whether the initiatives have been successful and the cost of delivery. Credit unions also require information on what is possible. What mechanisms could be used to finance CED and how do they work?

\(^{27}\) Credit unions require information on mechanisms for delivering capital; ways of reducing risk; how to structure loans (e.g., collateral requirements, terms of repayment, cost of capital); how to deal with "groups"; which CED initiatives to finance; and how to monitor and collect loans.

\(^{28}\) A familiarity with local community groups and non-profits is essential as they are potential partners for credit unions.

\(^{29}\) Understanding the local and regional economies is key. In particular, credit unions need to understand where potential areas for development lie. The informal economy has tremendous untapped potential as well. With accurate information about local markets and local resources credit unions can participate more effectively in CED lending and business planning.
* Reports on current CED projects around the province (Pinney 1986).

Central is the logical place for this information to be gathered and stored. Central could either conduct the research itself or contract the work out to a member credit union or to some other community group or institution. Once the information is compiled, it should be distributed to individual credit unions.

6.6 Summary

This chapter started out by examining the reasons why credit unions do not participate more actively in CED. It then presented some compelling reasons for the credit union movement to consider adopting CED as a long-term development strategy. Two particularly pressing constraints on credit union participation in CED--the lack of a broader vision within the movement and the fact that credit unions are deposit-taking institutions--were then presented. Suggestions for how these might be overcome were discussed; strategies included: attracting new deposits of capital; securing subsidies for technical assistance and loan administration; and numerous methods of reducing risk. The last part of the chapter identified ways for credit unions to build their human and institutional capacity for CED. The next chapter will provide a summary of the research findings and the conclusions that can be drawn from this study of credit unions and CED.
CHAPTER VII  SUMMARY AND CONCLUSIONS

7.1 Summary

The purpose of this thesis was to explore ways for credit unions to participate in community economic development. This purpose was broken down into three objectives: 1) to assess the level of credit union participation in CED; 2) to show what credit unions are currently doing to support CED; and 3) to analyze the potential for credit union participation in CED. The following is a summary of the research findings.

7.1.1 Level of Credit Union Participation in CED

The assessment of the level of credit union participation in CED found that: a) most credit unions are not participating in CED; and b) that a small minority of credit unions do engage in CED.

A. Limited support for CED

The research has shown that most credit unions are not participating in CED—in either a lending or a support role. Evidence for this statement comes from three sources: the CED literature, the statistics on credit union lending, and interviews with CED practitioners, credit union leaders and credit union staff. From all three sources, the message is unanimous. The majority of credit unions are not pursuing a CED agenda.

Credit unions are very conservative lenders. In spite of their co-operative, democratic nature, which would seem to indicate an affinity for CED, credit unions have pursued very traditional investment policies. They concentrate on consumer and mortgage lending, devoting very few resources to commercial lending (which can be viewed as a proxy for
CED lending). Most credit unions show little interest in CED and have done little to support it in their communities. Only a small segment of credit unions leaders--perhaps 20%--is interested in CED. And even then, the interest has yet to be translated into concrete action. The remaining credit union leaders see the mission of the credit union as the delivery of cheap financial service--full stop!

So despite their origins and nontraditional structures, credit unions are generally no more involved in CED than private financial institutions.

B. Holistic vs. partial commitment to CED

The research also shows, however, that a small minority of credit unions in Canada are doing interesting, innovative work in support of CED. These credit unions are not all the same. They demonstrate differing levels of commitment to CED and engage in a broad range of activities. Some have a holistic commitment to CED, while others devote only a portion of their resources to community economic development. Two credit unions in Canada--Bread & Roses and CCEC--exist for the express purpose of furthering CED in their communities. The situation is different in the United States where a whole class of credit unions concerned with community development--community development credit unions (CDCUs)--has evolved. Not all CDCUs are involved in CED; most are concerned with providing consumer loans to low-income members. There is a subset of CDCUs, however, that is actively engaged in CED. Ottawa Women's Credit Union is Canada's only CDCU. It services low-income, disadvantaged women in the Nation's Capital.

Credit unions with a holistic commitment to CED are not the only credit unions that participate in CED. There are other credit unions in Canada that, while not necessarily embracing a "CED" or "social change" agenda, are engaged in projects, programs and
activities that support CED in their communities. The most often cited example of a credit union with this type of partial commitment to CED is VanCity Savings Credit Union in Vancouver. Aside from this more well-known case, there are other credit unions across the country that have adopted innovative measures to strengthen CED.

Within this second category of credit unions—the ones with a partial commitment to CED—there are two different kinds of credit unions. There are those that are re-interpreting their mission to include financial support for community economic development. These credit unions are starting to take their role in the revitalization of local economies more seriously. Then there are those that have adopted one or two innovative programs (such as a "shop local" program or special services for non-profits), without these being part of any fundamental reconceptualization of their relationship to the broader community.

What, if anything, do these institutions have in common? Vision and leadership. Vision, in that they all recognize that they have a role to play in supporting the local economy. Leadership, in that the credit union leadership (Board or management-level) is committed to finding innovative and creative ways for the credit union to participate in community investment. Two clear illustrations of this finding are Caisse Populaire Evangeline and VanCity Credit Union. The central involvement of Evangeline in worker co-op development, resulted from the vision of the general manager, Leonce Bernard. Likewise, the changes in VanCity are driven by its "progressive-left" Board.

7.1.2 What Credit Unions Are Doing to Support CED

Credit unions provide support to CED in a variety of ways. The research found that credit union assistance extends beyond merely providing access to capital to include participation in such activities as community-building and community infrastructure
development. So in cases where they are not directly involved in lending, credit unions may perform other support functions. The following is a summary of the kinds of support activities in which credit unions have engaged.

A. Access to Capital

There are a few examples of special CED lending vehicles: "roses" accounts at Bread & Roses, the new VanCity Community Investment Deposit Program and the VanCity EnviroFund. A few credit unions have provided no-interest or low-interest loans to daycare providers and non-profits. Many credit unions provide no-interest consumer loans for "shop local" programs. These programs provide consumer loans to local residents to encourage them to shop locally. A few credit unions have assisted in worker buyouts by providing low-cost capital. Loans to worker, consumer and housing co-ops are the purvue of the community development credit unions like CCEC and Bread & Roses, although credit unions in Saskatchewan have been involved in lending to consumer and producer co-operatives.

Credit unions have engaged in partnership lending, both as administrators of loan capital (provided by government or foundations), and as actual members of a team of lenders. Credit unions have played an administrative role in both peer-group lending (CCEC) and small business lending (SHCU). Caisse Populaire Evangeline was part of a team of lenders that included the Baie Acadienne Venture Capital Group, the federal and provincial governments and the worker-owners of the P.E.I. Potato Chip Co-operative.

B. Other Support Functions

Some credit unions support CED in ways other than by providing access to credit. These roles include: providing technical assistance; building community and community
Technical Assistance

There are very few examples of credit unions providing technical assistance to CED initiatives. In the examples given, the credit union either provides the technical assistance directly or brokers it through a third party. Both Bread & Roses and CCEC provide hours of technical assistance to potential clients--a practice which they find very costly, but essential. VanCity Credit Union participated in a small business "seed capital program," the demise of which demonstrated the necessity of providing technical assistance in conjunction with small business loans. In terms of third party technical assistance, CCEC has identified the lack of third parties with skills appropriate to CED institutions, as a definite constraint on its CED lending. An example of third-party technical assistance was given: VanCity Community Foundation brokered a marketing plan for a restaurant/training institute for youth in transition from the streets.

A few credit unions have provided technical assistance to support the formation of other community-based financial institutions. For example, CCEC staff provided the WomenFutures Loan Guarantee Fund with support and guidance. And Caisse Populaire Evangeline was instrumental in the establishment of le Conseil de la Cooperation de l'Ile-Prince-Edouard.

Building "Community"

Corporate donations and sponsorships are the most common form of support in this area. Groups in the community that are targeted include: arts and service organizations, charities, educational institutions, sports teams, and local schools. These types of activities
help to build a sense of community and commitment and raise the profile of the credit union.

One credit union produces a member services directory listing the various products and services its members produce. The directory serves a number of important functions--it enables members to get to know one another and provides them with information that enables them to 'buy local', and in the process help their fellow credit union members.

**Community Infrastructure Development**

An important first step in building community capacity is the development of an educated, committed CED constituency. In an effort to generate this, a number of credit unions have sponsored community seminars, workshops and educational forums on such topics as affordable housing, women in business, poverty alleviation and alternative economic structures. Some also publish newsletters that carry articles on CED-related subjects. A healthy non-profit sector is an important resource for any community that wishes to adopt a CED strategy. Credit unions support this sector in a variety of ways--through the development of non-profit incubator facilities, by making free meeting space available, and by donating credit union staff time--to name only a few.

C. Organizational Development and Capacity-building

A number of credit unions have implemented organizational changes in order to make their participation in CED more effective. These changes fall into four categories:

* Developing a mission statement that incorporates CED;

* New institutional arrangements;

* Staff training and development;

* Planning and program development.
One way for a credit union to strengthen its involvement in CED is to include it as part of its mission. VanCity Savings Credit Union recently completed such a project. While the term "CED" does not appear in its new mission statement, certain phrases in the Statement of Corporate Social Responsibility are compatible with a CED philosophy.

Two credit unions (VanCity and Evangeline) have experimented with creating subsidiaries to perform some of their CED work. The two VanCity subsidiaries are still quite young so evaluating their success is problematic. Evangeline's subsidiary, the Baie Acadienne Venture Capital Group, was involved in a few successful ventures in the beginning, but recently has laboured under a string of bad loans. It is presently inactive. Two other credit unions are studying the feasibility of creating subsidiaries. CCEC may reactivate the CCEC Society to do its CED work. Bread & Roses is thinking of forming a non-profit venture capital corporation to finance ventures that require start-up capital.

A subsidiary is desirable for a number of reasons. It enables a credit union to legally separate the riskier CED lending from regular banking operations. It provides a means of collecting and concentrating capital for a specific CED purpose. And if given charitable status, it is eligible for tax-free donations and grants, which can then be used to subsidize the cost of delivering technical assistance and doing CED development work. Moreover, establishing a subsidiary allows the credit union to hire staff whose role is unambiguously to further CED development goals.

A third area of organizational development is staff training. Saskatchewan credit unions recently initiated a series of workshops aimed at educating credit union staff, along with employees of other co-operatives, about community development initiatives. The fourth area is planning and program development. VanCity Credit Union and some of its efforts to "consult" with the community were highlighted.
7.1.3 The Potential for Credit Union Participation in CED

The third objective of the thesis was to analyze the potential for credit union participation in CED. There were two major findings under this objective: that there are significant barriers to credit union participation in CED; and b) that in spite of these, there is definite scope for increased credit union participation in CED.

A. Barriers to Credit Union Participation in CED

The research found that there are very significant barriers to credit union participation in CED. These include: the nature of CED lending, the success of consumer and mortgage lending, restrictions on commercial lending, the erosion of traditional credit union values, lack of member commitment, tension between social and economic goals, conservatism of credit union staff, lack of vision, size, centralization versus autonomy, and a lack of practical examples. In order for credit unions to participate more fully in CED, these barriers will have to be removed.

B. Scope for increased credit union participation in CED

The research clearly shows that some credit unions are participating in CED. These credit unions have found ways to overcome the barriers listed above. The fact that some credit unions are able to pursue a CED agenda, implies that others can as well. But in order for this to happen, credit union managers and directors will have to be convinced of two things: the value of CED as a rational business strategy, and the fact that the barriers are surmountable.

From the perspective of a credit union, there are some very compelling reasons for pursuing a CED agenda. The reasons are as follows: the potential for new markets,
survival, maintaining their member service orientation, revitalizing the spirit of the movement, differentiating credit unions from other financial institutions, and the growing importance of "social" investment (making credit unions attractive to the social investor).

The fact that some credit unions are involved in CED suggests that at least some of the obstacles can be removed. Certainly, credit unions have found innovative solutions to the problems of risk (subsidiaries, low-cost capital), lack of vision (developing a new vision), lack of staff expertise (Community Advisory Council). The removal of the remaining barriers will require help from other partners as well as commitment, creativity and innovation from the credit union system.

Both large and small credit unions are involved in CED. This suggests that the potential exists for any credit union, regardless of size, to engage in CED. Size is an important variable, however, when considering the kinds of programs that each can adopt. Because of its more extensive resource capacities, what is possible for a large credit union may not be possible for a small one. Likewise, the fact that small credit unions have tighter bonds (and therefore the potential for more community commitment) may make certain activities easier for them than for large credit unions.

The study confirmed that investing capital creatively and effectively in the local economy is only one of the ways that credit unions can support the process of CED. There are other ways for them to use their financial expertise and staff resources to further CED. So even if a credit union is unable to provide access to capital (because of its size or lack of staff expertise), it can certainly assist in other ways such as community- and capacity-building.
C. Summary: What is Needed

In order to participate in CED, credit unions require leaders who are committed to a broader social vision and staff who are capable of combining community development with financial planning and business development. Credit unions also need committed members who are willing to invest their savings in ways that further community development. Credit union participation in CED is only possible if there are people in the community who are willing to invest their money according to social as well as economic criteria because they are concerned about how their investment decisions impact community viability.

The research also found that there is potential for credit union participation in CED as long as the concerns that relate to their nature as depository institutions are addressed. So, credit unions also require:

* Vehicles for attracting new deposits of capital, preferably long-term, low-interest capital;

* A means of subsidizing the costs of CED lending;

* Ways to reduce the risks associated with CED lending; and

* Government support.

7.2 Conclusions

These research findings have a number of implications for practice. Action is required from several parties: individual credit unions, credit union centrals, governments and community planners.
7.2.1 Individual credit unions

A. Organizational Development and Capacity-building

New institutional arrangements

* Create a special member committee or subcommittee to identify ways for the credit union to participate more actively in CED.

* Establish a subsidiary to carry out the CED work of the credit union. Possible roles for such an entity include: the provision of technical assistance, the development of affordable housing, and the provision of venture capital. The subsidiary could be capitalized with low-cost uninsured deposits from private social investors, institutional investors, and governments, as well as donations from individual credit union members (dividend check-off; transit levy) or with an annual allocation of some percentage of total dividends. If given charitable status, a subsidiary might also be eligible for grants and donations from private individuals, institutional investors, and governments.

Planning and program development

* Identify groups, individuals, and organizations within the community that are doing CED work. Start a process of consultation with representatives of these groups and other interested individuals to identify mutual areas of interest and to discuss what the credit union can do to support CED. The process of consultation must be an open one with the credit union responding directly to the challenges set out by these groups and individuals. Consultations can take a variety of forms: workshops, focus groups, one-to-one meetings, as well as more informal discussions. The goal is for credit union staff to develop good working relationships with local groups and to keep ideas, energy and support flowing in both directions. For multi-branch credit unions, the consultation should take place at the branch level with representation from head office.

* Conduct surveys of community groups to determine what their capital needs are.

Staff development and training

* Recruit staff with a broader understanding of community development issues. Make community development experience a prerequisite for certain positions within the credit union.

* Create a "community development" position within the credit union.
* Incorporate community speakers and visits to CED projects into the training of new staff.

B. Access to Capital

* Create a special investment fund supported by low-cost deposits to be used to provide secured loans to the following groups: worker, housing and consumer co-operatives, non-profit corporations, childcare operators, community-based organizations, community businesses, socially- and ecologically-responsible businesses, as well as micro-entrepreneurs (self-employed people, people who work out of their home). Publish a quarterly newsletter to keep depositors updated on the activities of the fund.

* Another possibility is to use the investment fund as a loan guarantee fund rather than a direct loan pool.

* Establish social and environmental criteria to ensure that funds are directed to the appropriate kinds of initiatives. (See Appendix VI for the kinds of criteria that might be used.)

* Solicit deposits from social investors, institutional investors such as foundations and churches as well as federal and provincial governments. Set up a process for members to donate their dividends and transit levies to this Fund. Explore ways to make the Fund RRSP-eligible.

* Establish a community advisory council made up of community representatives to assist in disbursing loans from the investment fund. The role of this committee should be to: set the criteria/guidelines for lending; identify worthwhile projects in the community; make decisions about which projects to fund; and provide technical assistance to borrowers (as a way to supplement credit union staff expertise).

* Set up a lending program for small- and micro-businesses seeded with money from the provincial or federal government. Develop the capacity to provide technical assistance in-house (through the lending department or a subsidiary) or develop working relationships with groups that can provide it on either a voluntary or a contractual basis.

* Develop a program of "investor forums" aimed at informing and educating potential social investors about the credit union’s community investment opportunities.

* A number of credit unions could pool their capital to create a "regional" community investment fund or loan guarantee fund.
C. Other Support Functions

* Help build a constituency for CED by: sponsoring workshops, conferences and roundtable discussions on community survival; using credit union lobbies for community service displays; providing a clearinghouse for information on local community activities and events; sponsoring community events and capital campaigns for community facilities (such as hospitals, arenas, safe houses).

* Raise the profile of ecologically- and socially-responsible businesses through a newsletter or directory as part of a promotional campaign to get members to support these types of businesses. The credit union could also sponsor an "ecologically- and socially-responsible" business fair.

* Provide technical assistance to groups wanting to establish community-based financial intermediaries. Local financial intermediaries are important because they act as a bridge between credit unions and local projects. Intermediaries are able to identify and evaluate worthwhile projects which saves credit unions from having to develop/acquire this kind of staff expertise.

* Contribute financial expertise to CED initiatives. Even if the credit union does not provide capital, the manager or another staff member can offer financial advice. In the larger credit unions, staff can be seconded for short periods of time to work on CED projects.

* Endorse CED initiatives through participation on the advisory committee, steering committee or board.

* Become the primary financial institution for the non-profit sector, providing low cost financial services and mortgages whenever possible as well as a preferred rate of interest on term deposits. Set up a marketing program to attract the deposits of these organizations (CU CO 1987:5).

* Offer additional support to the non-profit sector by: providing free meeting space; allowing credit union staff to attend meetings during working hours; encouraging credit union staff to sit on the boards of local non-profits or CED organizations and to volunteer in other ways; providing training opportunities within the credit union for volunteers and staff from community organizations; developing non-profit/small business incubator facilities; acting as a bridge between the non-profit sector and the business community.

* Support the development and implementation of local currencies, including accepting payment in this local currency.

* Convene a meeting of all credit union staff and CED groups and individuals to talk about "community survival." The goal of such a meeting could be to map out a plan for joint community action.
Initiate a community planning process. Identify partners (groups, organizations, and individuals) interested in developing a CED strategy for the community. Participate with these community groups and members in setting up appropriate vehicles for implementing a CED program for the community (e.g., a community development corporation or a co-operative development council) (Pinney 1986).

7.2.2 Credit Union Centrals

Support at the provincial level is critical if individual credit unions are to become more involved in CED. There are four ways for a credit union central to assist CED: research, advocacy, lending, and training. A Central could start by establishing a special department or a separate subsidiary to support CED activities in the system. Such an office or entity would allow Central to concentrate staff and resources in order to more effectively carry out the following:

A. **Research**

* Survey all the credit unions in the province to determine what each is doing/has done to support CED in its community.
* Conduct (or provide the funds for) research on the potential for credit union participation in CED and distribute this information to individual credit unions.
* Provide credit unions with current information on what is happening in the CED field, including information about techniques for financing CED and specific reports on current CED projects around the province.

* Conduct research and development on CED loan products and services.

B. **Advocacy**

* Lobby the provincial government to change the commercial lending restrictions on credit unions so that those with CED lending expertise are not overly restricted in what they can do.

* Negotiate with senior levels of government to set up a government loan guarantee program for CED initiatives.
* Convene a meeting of all credit union managers within the province to discuss the potential for credit union participation in CED. Convene a meeting of credit union managers and directors from across Canada to discuss the same. Organize a national conference on credit unions and CED.

* Work with the Community Colleges and Universities to promote social entrepreneurship in their commerce and business administration programs.

* Initiate an aggressive media and public relations campaign to inform the public about the importance of investing locally through credit unions, with particular reference to CED themes.

* Raise the profile of CED lending by establishing a CED award within the credit union system for the most innovative CED loan product or financing package. Advertise successes and highlight CED activities in newsletters, annual reports and at annual general meetings.

C. Lending

* Set up a special loan fund at Central to be used to support CED lending in credit unions that are actively pursuing opportunities in this area. This fund could either provide money for loans, or guarantee loans made by member credit unions.

* Become an instrument for syndicating loans and/or leveraging funds from other sources (e.g., government, private-sector) for larger-scale CED initiatives.

D. Training

* Organize a series of workshops around the province to educate credit union leaders about the need to participate in CED and the roles credit unions might play.

* Develop programs for training credit union personnel in community development lending.

7.2.3 Governments

Credit union participation in CED would be greatly facilitated by the adoption of certain policies and programs at both the provincial and federal levels. The following is a list of what government can do to encourage credit unions to participate in CED:
A. Provincial Government

* Change the regulatory framework governing credit unions to incorporate a flexible cap on commercial lending so that credit unions with the appropriate CED lending expertise can increase their level of commercial lending. Another approach would be to change the risk-weighting for CED lending.

* Make long-term, low-interest deposits in credit unions to seed community investment funds. Make equity investments in credit unions to enable them to undertake more CED lending. Make grants to credit unions involved in CED to be used as loan loss reserves for their community investment loan programs.

* Establish a provincial loan guarantee to reduce the risk to credit unions of lending to CED businesses.

* Establish an investment guarantee program similar to the one initiated by the Ontario government in 1993 (a government-backed CLF). Through this program, the government guarantees the principle invested by an individual in a community loan fund (CLF). (Community investors purchase "Class A Notes." Capital raised in this manner is used to establish the "Fund." Money in the Fund is then used as collateral so that businesses can obtain start-up and expansion financing from credit unions). The government also offers limited assistance to cover operating expenses until the fund becomes self-sufficient. Technical assistance costs are also partially reimbursed. The program offers credit unions a risk-free way of providing loans to CED businesses. In addition it provides a broadened customer base, additional deposits (the CLFs assets), and a portfolio of guaranteed loans (OMMA 1993). This approach is so elegant because it reduces the risk to the investor and the lender at the same time.

* Capitalize new community loan guarantee funds directly through existing agencies or contribute to existing funds (e.g., the WomenFutures Loan Guarantee Fund).

* Provide grants to credit unions to support technical assistance services to borrowers and the development of new CED credit products and services (Ad Hoc Coalition of CDFIs 1993).

* Subsidize the costs of developing new CED loan products and services, including market analysis, product research, and product development costs.

* Subsidize the costs of training delivery to CED lenders.
B. Federal Government

* Provide incentives for investment in CED deposit programs. One way to do this is to amend federal tax laws to provide tax-free interest to individuals who make below-market community development investments or deposits in community investment funds, venture capital funds, etc. Another approach is to change the Elizabethan Act to include CED (or some aspects of it) as a charitable activity.

7.3 Implications for Planning

Community economic development is a planning approach that is still very much in its infancy. The task facing community planners is to strengthen this approach so that it is a viable alternative to traditional economic development. One way to do this, is to find mechanisms for regaining control over local capital so that it is invested in the local economy. This study has shown that credit unions have the potential to provide capital for community investment. The primary task of planners is to tap this potential--to find ways to draw credit unions into CED planning. The following are some suggestions for how this might be done:

* Invite credit union managers/board members to join the boards of individual CED initiatives. The presence of the credit union, even if it is not providing any capital, gives the process credibility. Moreover, credit unions have valuable financial expertise that can be used to strengthen the viability of the individual CED initiative. Direct exposure to these kinds of initiatives is also a good way for a credit union to see what role it can play in community revitalization.

* Ensure that credit union representatives participate in community-based planning exercises. Their participation at this level may spark their interest in more active involvement.

* Work with individual credit unions to identify ways for them to participate in CED. Discussions can take place informally (over lunch or through weekly telephone conversations) or through formal workshops and seminars between credit union management and Board members, planning department staff and community representatives.
Become familiar with what constrains credit union participation in CED (e.g., risk, limited staff resources, member demands) in order to be able to deal knowledgeably with the concerns of credit union management. A planner with a realistic appreciation of the barriers will be more credible, and therefore more effective in enlisting credit union support and involvement.

Explore ways to work in partnership with credit unions. Community planners have a great deal of community development expertise. Credit unions, for the most part, lack this kind of expertise. Planners should explore ways to share their community development expertise with credit unions. One possibility is for a planner to run for election to the Board of Directors of a credit union. Another possibility is for a planner to be appointed to the advisory board of a community investment fund.

Ask to speak at the annual general meeting of the local credit union or to make a special presentation to the Board of Directors or the Credit Committee as a way to initiate discussion about the potential role for the credit union in local CED efforts.

In communities that are facing serious economic dislocation due to economic restructuring, local planners should initiate a strategic planning process to address issues of community survival. Credit union leaders should be asked to participate in this process along with other community representatives. An important issue to consider is how local resources of capital--such as credit union deposits--can be used to fuel the transition to a more stable, diverse local economy.

7.4 Areas for Further Research

This study identified many gaps in the existing information base. Further research in this area should begin with a detailed survey of credit unions, in both Canada and the United States, to determine what they are doing to support CED. The study would involve a written questionnaire about CED-related activities. The questionnaire could be followed up with phone or personal interviews. One of the goals of this research would be to identify any differences between urban and rural credit unions or differences between large and small credit unions. One of the people interviewed for this study suggested that credit unions in smaller centres do more business lending than their urban counterparts because they are the only financial institutions present in the community. This hypothesis deserves further investigation.
An evaluation of the various CED initiatives that have been tried by credit unions is a definite priority. Their success should be judged from two perspectives: impact on the community; and impact on the credit union. This kind of a study is very important in order to show credit union managers and staff what approaches work.

A topic that this research was not able to touch on at all relates to the characteristics that make for successful CED lending. Another gap is information about the way that loans are structured. Further research should be done to detail all of the different ways that CED lenders have set up loans.

In the United States, the government and the private-sector are much more involved in capitalizing community-based financial institutions than in Canada. Government - credit union partnerships whereby the U.S. government deposits dollars for lending directly into the credit union which then administers the funds deserve a closer examination with a particular view to transferring concepts to the Canadian context.

A comparative analysis of subsidiaries is another worthwhile project. There is some information on particular subsidiaries, but there are no studies that compare their structures or their approaches. This study could look at: what are the different structures that have been tried; what has worked, what has not worked and why. The subsidiaries to study include: VCE, VCCF, Baie Acadienne Venture Capital Group, and the community development banks in the U.S.

There is also a need for case study analyses. A particularly interesting area of inquiry would be the Mouvement Desjardins in Quebec. There are many hints that this system has adopted innovative, effective and far-sighted programs to support community economic development in Quebec communities. The Canadian community development credit unions (Ottawa Women’s Credit Union, Bread & Roses, and CCEC) also offer fertile
ground for further study. Questions to be answered include: how they have made the trade-offs between the demands of a competitive financial services market and their objectives as community development institutions; what compromises have they had to make in order to survive? The handful of CDCUs in the United States that are particularly concerned with CED also deserve closer scrutiny. There may be lessons to be learned from their experiences in under-developed and marginal communities.

These are just a few of the questions that deserve further attention. The potential for credit union participation in CED is just beginning to be explored. There are many information gaps that need to be filled if credit unions are to participate more actively in CED. A concerted research effort to answer some of these questions is an important first step towards finding ways for these institutions to participate in the revitalization of local economies.

### 7.5 Summary

For communities seeking ways to regain control over local capital, the record of credit unions with respect to CED lending, is both disheartening and hopeful--disheartening because, for the most part, credit unions are not participating in CED; hopeful, because there are some exciting examples of how credit unions have supported CED in their communities. What this thesis does is show both the potential for credit union participation in CED and the constraints that keep these institutions from a more active involvement. It is only through an understanding of the tension that exists between these two, that communities will be able to draw credit unions into meaningful participation in the project of "holistic" development that is CED.
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APPENDIX I

Interviews

Twenty-one interviews were conducted over a period of three years (1991-1994). Interviewees were chosen on the basis of the following:

* Involvement in the credit union system;
* Interest or expertise in CED;
* Involvement in government; and/or
* Involvement in some aspect of community financing relevant to credit unions.

About half of the people interviewed were from British Columbia (11/21), a reflection of the fact that the research was carried out in Vancouver. Time and money did not allow a more extensive interviewing procedure. The biggest gaps are: credit union general managers, government bureaucrats with expertise in this area, and individuals involved in actual CED projects and initiatives.

Interviewees were asked:

* to identify innovative examples of credit union participation in community economic development;
* whether there is any real commitment in the credit union movement to expand the role of credit unions in CED;
* about the role credit unions could play in CED and the role Central could play;
* to identify a strategy that could be employed to encourage credit unions to participate in CED;
* what constraints credit union participation in CED;
* about the advantages of participating in CED--from the perspective of the credit union movement;
* how government could facilitate credit union involvement in CED;
The following is a list of the people interviewed:

Don Alexander, Private Consultant  
3 May 1993

Richard Allen, Chief Economist, BC Central Credit Union  
20 July 1993

Martin Baker, Toronto CED Network  
6 August 1993

Helene Bitney, Manager, Credit, Business and Commercial Loans, VanCity Credit Union  
21 May 1992

Tim Burns, Ministry of Municipal Affairs, Government of Ontario  
29 July 1993, 13 August 1993

Melanie Conn, Board member of CCEC Credit Union  
31 July 1993

David Driscoll, Executive Director  
VanCity Community Foundation  
15 July 1993

Jo-anne Ferguson, Manager of Research  
Credit Union Central of Saskatchewan  
13 August 1993

Ross Gentleman, Director, Examinations - Financial Institutions Commission, Ministry of Finance and Corporate Relations  
15 July 1993

Gary Gillam, Manager, UNICOLL Credit Union  
5 August 1993

Holly Hughes, Manager, The Ottawa Women’s Credit Union  
29 July 1993

Keith Jardine, Private Consultant  
30 May 1993, 27 July 1993

Catherine Keenan, Training Coordinator, The Ottawa Women’s Financial Training Program, The Ottawa Women’s Credit Union  
23 July 1993

Jim Key, Self-Help Credit Union  
6 August 1993
Mike Lewis, WestCoast Development Group
19 April 1993

Stewart E. Perry, Private Consultant
26 July 1993

Paul Richard, Manager, Caisse Populaire Evangeline
18 May 1993

Coro Strandberg, Director, VanCity Savings Credit Union;
Chair, VanCity Community Foundation
3 March 1992, 7 May 1993

Richard Thomas, VP, Government Relations and Corporate Secretary, BC Central Credit Union
3 August 1993

Pieter van Gils, Membership Development Officer
VanCity Savings Credit Union
15 July 1993, 27 July 1993

Susan Witt, Manager
Self-Help Association for a Regional Economy
27 July 1993
APPENDIX II

CED Institutions

What follows is a more detailed description of some of the CED institutions identified in the text of the thesis. Four organizations are described: co-operatives, non-profits, community businesses and community development corporations.

CO-OPERATIVES

All co-operatives are voluntary associations of people who pool their resources to provide a service to themselves. The people using the co-operative are called members. Member participation in decision-making follows the democratic principle of one-person, one vote. The Board of Directors is elected from amongst the membership and has legal responsibility for the corporation. Ownership of assets is either on the basis of use or is equal among all members. The annual surplus is distributed among members on the basis of use of services (CUCO 1987; Quarter 1992). For these reasons, a co-operative is described as "member-owned and -operated."

Co-ops share with traditional businesses one similarity: business survival. If a co-operative is unable to sustain its own members then it disappears. But co-operatives differ from traditional businesses in that the former either distribute their surpluses (profits) according to the degree of member participation or apply the gains to meet certain social needs of the community (Ross and Usher 1986:61). And because of their democratic structure, these organizations are more responsive to the collective will of the membership. Although co-operatives share these common elements, they vary in structure depending on the membership group and its objectives (Quarter 1992:15,17). Four different kinds of co-
operatives can be distinguished: marketing, consumer, worker and development co-
operatives.

Marketing co-operatives

Members are independently employed, most often self-employed, and establish a co-
operative to provide themselves with a common service, usually marketing. Members are
either primary producers (farmers, fishers), artisans or producers of a service (for example,
taxi) (Quarter 1992:19,38). They organize to retail their goods or services directly to the
public, avoiding middle-traders and sharing the savings or passing some on to their clients
(Ross and Usher 1986:61).

Consumer co-operatives

Consumer co-operatives are corporations in which the members are consumers or
users of a particular service such as food retailing and wholesaling, farm supplies, financial
services, housing, childcare, healthcare, insurance, burial, transportation, communication,
and so on (Quarter 1992:38). These co-ops generally buy commodities, buildings, services
and so forth at reduced prices and pass the savings on to co-op members. In most cases,
these types of co-ops will have a commercial profit rationale, although there may also be
social objectives (Ross and Usher 1986:61).

Housing co-operatives are a particular form of user co-operative through which people
organize to provide themselves with affordable housing. In housing co-ops, residents are
owners-in-common and members of the co-operative. They control the housing development
by electing a board from among themselves according to the principle of one-person/one-
vote, and they also staff committees that work with hired management in operating the co-
operative (Quarter 1992:118). Unlike other co-operatives that are financially self-reliant, housing co-operatives require government assistance in the form of mortgage subsidies so that the housing charge can be affordable to the average resident. There are also special subsidies for low-income residents (Quarter 1992:21).

Childcare co-operatives are consumer co-operatives organized by parents of nursery school-age and preschool-age children. In addition to being co-operatives, are non-profits and are governed by the parents using the service (Quarter 1992:22).

Worker co-operatives

A worker co-operative is a business that is wholly, or substantially owned and controlled by those who work in it and that is run for their mutual benefit (Cornforth et al. 1988:3). Management is drawn from the workers' themselves and decisions are reached only after the full participation of all workers (Ross and Usher 1986:61).

Development co-operatives

There is a whole class of co-operatives called "development co-operatives" whose mandate is to encourage economic development. The establishment of these kinds of co-operatives has increased substantially in Canada since the mid-80's, particularly in smaller communities. Development co-operatives are divided into three groups based on the focus of their activities: economic development, business service, and "other" development (including rural and community development). Most development co-operatives in Canada are created to assist in the general "economic development" of their communities. Business service co-operatives provide services to other firms and organizations some of whom are co-operatives. The "other" category includes "community development co-operatives," that is, co-operatives
that assist in the development of worker co-operatives (Ketilson et al. 1991).

NON-PROFIT CORPORATIONS

Non-profits are organized to provide humanitarian or social service either to the public or to a defined membership. In terms of structure, they can be placed on a continuum ranging from actual non-profit corporations, through formal associations, to informal associations. The term, "non-profit" applies to all three types (Quarter 1992:42). The primary goals of non-profits are normally wholly social, but they can be involved in economic activities as well (CUCO 1987). "Most non-profits are small, labour-intensive setups with paid staff and volunteers that are devoted to the social purposes of the organization. Since volunteers frequently outnumber paid staff, non-profits are also referred to as 'voluntary' organizations (Quarter 1992:44."

Non-profits rely for most of their revenue on public subscription, such as individual, corporate or public grants, donations as well as membership fees. The social output of non-profits often consists of goods and services provided directly to clientele with special needs without charge or at subsidized rates (Ross and Usher 1986:61).

Charities

"Some non-profits are charities. Charities are required to spend at least 80 percent of their donations [to fulfill] their objectives, and in the event of dissolution, their net assets are passed on to another charity. If a non-profit applies and receives charitable status from Revenue Canada, donors gain [a] tax benefit, thereby creating a useful fundraising opportunity (Quarter 1992:41-42). Organizations that claim charitable status provide a variety of services including: relief of poverty and international aid, education, youth
COMMUNITY BUSINESSES

Increasingly, as non-profit agencies face funding crunches they are turning to private-sector approaches as a means of generating revenues for their social service activities. Many non-profits are exploring options for establishing small business enterprises. These businesses are called variously, community businesses, non-profit enterprises, or social enterprises. They operate under the legal sponsorship of the non-profit society and are expected to operate on a similar set of principles. In many situations, the proceeds from the business are funneled back into the service agency to fund its service programs. Alternatively, the community business may be a way for a certain group of people (e.g., consumer survivors [psychiatric patients], welfare recipients), to become economically independent.

COMMUNITY DEVELOPMENT CORPORATIONS (CDCs)

A CDC is a non-profit corporation designed to assist the development of the community in which it is located. While individual CDCs vary in their organization and program orientation, they share a common feature: the provision of support services for local entrepreneurship. In many instances, the CDC will actually plan development initiatives itself, maintaining control of the assets either directly or through a subsidiary corporation. The kinds of initiatives in which CDCs are involved include both social and private-sector enterprises (Quarter 1992:95-99). Although CDCs are non-profit corporations, they often establish subsidiary enterprises to generate revenues and profits which enable the umbrella
organization to become independent of charitable handouts and government (MacLeod 1986).

Most CDCs in Canada operate in areas where the existing economy is unable to meet the employment needs of the members of the community. "To overcome this problem, the CDC becomes a substitute entrepreneur that considers opportunities and formulates plans for the local community (Quarter 1992:99)." Other activities in which CDCs are involved include: business development support, skills training and development, technical assistance and business planning.
Supporting CED Initiatives

A. Access to Capital

While easier access to capital will not guarantee the financial success of a particular CED project, it does provide a more stable base from which to build viable enterprises. When groups are undercapitalized, the struggle to make ends meet drains their energy (Alderson and Conn 1988:19). Whether the initiative is a worker-cooperative, a community development corporation or a community land trust, it has particular capital needs. In order for these initiatives to flourish, capital must be made available in a form and an amount that is appropriate to their specific needs.

The capital needs of communities can be classified into four broad categories: equity, credit, subsidized credit, and credit enhancement (Rosen 1988:10). Each category requires different kinds of capital resources and can be delivered through a variety mechanisms by a variety of institutions.

Equity

In general, community development projects require both equity and debt financing. Though some projects may be financed entirely with debt, equity is essential in most cases, for two reasons: it reduces the amount of money that must be borrowed and repaid thereby reducing the ongoing operating expenses of the project; and it serves to leverage necessary debt financing. The equity that a community-based organization contributes to a project or venture may derive from member dues, from the purchase of shares (in the case of worker-owned businesses), from the value of labour contributed to the project by members and
volunteers ("sweat equity"), from the accumulated proceeds of the organizations' business activities within the community. In some cases these sources will provide all the equity that is needed. In other cases, the financial feasibility of a project will depend on grants and donations (of cash or property) from public or private sources beyond the local grassroots level. Once equity requirements have been met, practically all projects will also require debt financing. (ICE 1987:1-8)

Credit

The viability of many CED initiatives depends upon access to credit. Lack of access to credit is a problem faced by many CED organizations and businesses.

Newly established groups have a crucial need for loans, which may be for relatively small amounts and relatively short time periods, but which are typically the most difficult loans to get from conventional lenders. Once a group has received a loan and has demonstrated an ability to repay, its chances of raising other capital are greatly increased. But the group that has not yet been able to borrow money faces a frustrating paradox: it cannot get a loan because it does not have a "track record" as a borrower, but it cannot develop a track record as a borrower because it cannot get a loan.

Much of the need for community development capital could be met by loans at market rates, if conventional private lenders were inclined to make the money available. For many projects, especially when the need is for shorter-term financing, a market rate of interest is affordable. But the problem is whether a lender can be found who will approve a loan to the group, even at market-rate interest (ICE 1987:1-9).

Secondly, credit must be affordable. No productive purpose is served by offering loan terms which in their underwriting criteria, rates, terms or fees exceed those offered
other borrowers from more affluent communities (Rosen 1988:13).

Finally, the amount of credit offered must meet the credit needs of the community group or business. Offering to meet a fraction of the need represents only a token remedy and may frustrate efforts to achieve viability (Rosen 1988:13). Many times, a community group is able to borrow only a portion of the capital that it needs from a conventional lender. In such cases, the group must get the balance of the necessary financing from other sources, or else the project will not be feasible (ICE 1987:1-9).

Flexibility is another important characteristic of credit for CED. Many CED organizations can be viable if they receive credit on flexible terms--terms that are tailored to the specific needs of the organization rather than terms that are dictated by standardized procedures and standardized risk assessment.

Subsidized credit

Some CED projects and programs require "friendly" capital in order to survive. "Friendly" capital can come in the form of low or no interest loans, a 6-12 month moratorium on loan payments, or as low security loans1, to name a few.

Often community development projects require loans at interest rates lower than those charged by conventional lenders. This is typically the case with low-income housing projects--particularly those in which equity has not been heavily subsidized. For such projects, the servicing of substantial long-term debt must be made affordable for people with limited incomes (ICE 1987:1-9). With the help of social investors, this kind of credit can be

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1Low security loans are vital to many types of CED initiatives where the enterprise or its founders do not have sufficient assets to guarantee conventional loans (Pinney 1986).
made available.

Credit Enhancement

The fourth type of capital investment needed for low income CED is the application of capital resources to reduce the risk—real or perceived—of extending credit for these efforts. Such risk reduction strategies may be referred to as credit enhancements. The term includes, but is not limited to, the issuance of guarantees or insurance policies on loans made for low income CED purposes. Capital insurance strategies also include risk pooling mechanisms, loan loss reserves, availability and/or creation of secondary markets for the resale of CED loans, and the sale of equity shares in a development.

Development Finance

Development financing is critical to all CED initiatives. Because CED frequently focuses on the creation of new businesses the need for "start up capital" and "development financing" are of particular importance for CED programs. CED financial needs include the following (Pinney 1986):

Seed Capital
Small amounts of capital to help an entrepreneur to prove a concept and get a company off the ground. This capital is often called "love" money because it comes primarily from friends and family.

Venture Capital
Finance to start up new companies or consolidate them after a few years of growth.

Development Capital
Capital to assist established firms to restructure or expand.
B. Technical Assistance

Another factor that is essential to the success of CED initiatives is the availability of appropriate technical, administrative, and managerial assistance (shortened to "technical assistance"). Technical assistance is a vital resource in assisting individuals and groups to acquire the expertise to manage community-based enterprises (Pinney 1986).

The creation of innovative, effective, and diverse [CED] enterprise[s] is a difficult task under any conditions. Small businesses fail at a high rate and community-developed and worker-owned businesses are no exception. The success rate...can be higher...if communities are able to offer [technical] support services (Meehan 1987:137).

An active business support strategy reduces the failure rate of small enterprises. In the United Kingdom, the failure rate of new businesses was cut by 50% to one in six from one in three when clients were assisted and monitored by enterprise agencies (Dauncey 1988:194). What is needed is a sustained support base for advice and assistance to local enterprises at all stages in business development, one in which competent resource people can tailor assistance to the needs of each enterprise, whether this be in product development and marketing or in management structures and decision-making (Clague 1986:1,4-5).

CED initiatives require assistance in the following areas:

* Business feasibility studies and business planning;
* Financial analysis;
* Marketing analysis and development; and
* Management and organizational development.

Because of the democratic nature of many CED enterprises, they may require assistance in acquiring the appropriate group process skills and conflict resolution techniques. Making third party mediators and facilitators available to groups working with consensus and collective decision-making models is one approach. People who can provide assistance with
non-profit and cooperative management are also important.

Other ways of encouraging local entrepreneurs include:

* Entrepreneurial training programs that provide entrepreneurs with the management tools they will need to survive and grow (Meehan 1987).

* Development of an "incubator" facility to house for-profit and non-profit enterprises and to provide them with technical assistance, clerical and accounting services, and mutual support (Meehan 1987; Schramm 1987; UIC 1987).

* Mentoring program for small businesses—providing a weekly allowance, business training and counselling to participants to mitigate the insecurity of the initial start-up period (Meehan 1987).

C. Building "Community"

CED can only work if there is sufficient social consensus and social identity to give meaning to the idea of cooperation (Boothroyd 1987:16). This means that CED initiatives cannot succeed unless they take place within the context of community. As discussed in Chapter II, CED is grounded in a concept of "community" that is characterized by a culture of care and responsibility for others who share the same piece of land or the same set of circumstances. This kind of community does not exist in all places. It must be nurtured and tended with great care. Community-building refers to the process of developing the trust, respect, mutual responsibility, solidarity and sense of common identity, that characterize real community. Only when these types of relationships exist between members of a group will people be willing to engage in economic activity that seeks to fulfil broader social and community goals. Encouraging these kinds of relationships is a very important task for any CED support organization.

Community-building is a process of finding common ground, of people recognizing that the potential exists to undertake joint action to everyone's benefit. The only way to occupy common ground is through cooperation; the only way to create community is through
sharing, through a group of people embarking together on the project of improving life for everyone. Cooperation is the quality that most characterizes community and most preserves it. Community-building is about people learning the lessons of cooperation and responsibility (Kemmis 1990).

But how are these lessons learnt? How is a sense of responsibility for and commitment to the larger community cultivated? Through "practices in which the coincidence of personal concern and the common welfare can be experienced" (Robert Bellah et al., Habits of the Heart, p. 254, cited by Kemmis 1990:72). People learn that they can count on one another when they repeatedly accomplish difficult tasks together. This is the way that a sense of community, of "common unity," is nurtured--by people learning, through repeated experience, to trust and rely on other group members.

The concept or strategy of community-building may seem somewhat abstract and philosophical, but it is very important to the practice of CED. Without this kind of social development, CED can never succeed as a strategy for long-term community development. Building relationships in the community based on trust and mutual respect (community-building) is an integral part of CED.

D. Community Infrastructure Development

A key element of CED is the creation and maintenance of a foundation or "infrastructure" for carrying out CED (Ketilson et al. 1992). This foundation is comprised of both institutional and human elements. "Community infrastructure development" and "capacity-building" are two terms that are used to describe this process of foundation-building.
There are two important aspects of infrastructure development:

* Developing human resources; and
* Developing viable support organizations for CED.

Developing human resources

In order for a community to take back control of its economy, community residents must have the capacity to plan and implement community-oriented strategies and to develop economically viable community-based enterprises (Wismer and Pell 1981; Bruyn 1987). This is a matter both of acquiring new skills and knowledge and of building on the considerable expertise that residents already have. Because community members may not always have the necessary skills and knowledge to participate in policy and decision-making, an important dimension of CED is building individuals' capacities for community planning.

Often individuals, particularly those traditionally excluded from decision-making, need time to develop the skills, and acquire the knowledge base for full, meaningful participation in community planning and decision-making (Alderson and Conn 1988:38). This requires a commitment to a long-term perspective.

"It takes time and practice to develop skills and learn about the issues so that everyone can participate effectively in democratic structures. Individuals learn at different paces; confidence grows slowly. To cut short the process, is to stifle the participation of women and other community members who are not customarily involved in decision-making (Alderson and Conn 1988:6-7)."

In addition, people in communities require:

* A sound understanding of the problems communities are facing;
* The ability to conceptualize and promote innovative solutions to the problems; and
* Business and organizational skills to implement the ideas that have been proposed
* Group process and conflict resolution skills.
Developing viable support organizations

A community’s ability to engage in CED is severely restricted by the lack of organizations set up to support these kinds of initiatives. One very important aspect of infrastructure development is the creation of organizations that can assist individual CED efforts and community planning efforts.
APPENDIX IV

The History of Credit Unions

Credit unions had their origin in the co-operative movement of Europe of the mid-nineteenth century. Co-operative organizations were created to improve the economic and social position of the working classes—farmers, craftsmen, small proprietors, and industrial workers—people who found themselves at a disadvantage in an economy that was dominated by private ownership. Co-operatives represented a way for these people, through collective action and ownership, to ensure profits would be distributed to those who helped produce them instead of accruing to the owners of capital.

The first co-operative ventures were producer and consumer co-operatives. But social reformers, in response to the restrictive credit policies of banking institutions, soon turned to the idea of co-operative credit societies as a means of providing working people with access to credit (Purden 1980:9).²

The early experiments in the development of co-operative credit associations were undertaken in the 1940’s by two Germans: Herman Schulze-Delitzsch and Friedrich Wilhelm Raffeisen. The former concentrated on the needs of small craftsmen and small proprietors in urban areas, while the latter concentrated on helping farmers and others who lived in rural districts (Purden 1980:10).

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²Banks provided credit to those who possessed substantial assets and refused it to those who did not. As a result, working class people and small entrepreneurs were denied access to credit on reasonable terms and were forced to turn to private moneylenders who charged exorbitant interest rates. In these circumstances the vast majority of people fell heavily into debt and faced little prospect of ever improving their situation.
Schulze-Delitzsch's credit societies, which became known as "people's banks," had a number of important features. The working capital for the society came from members via the purchase of "shares" (which were paid off in instalments), entrance fees, and deposits of savings. Short-term loans were granted to members for "productive purposes" only. Loans were secured by the character of the borrower rather than by collateral or chattel mortgages. The principle of democratic ownership and control was an essential element of these societies--each member had one vote, regardless of the number of shares held. All members shared equally in the control of the society through democratic assembly and voting procedures (Purden 1980:11). The three guiding principles of the people's banks were self-help, self-government, and self-responsibility (Axworthy 1981:73).

The societies organized by Raffeisen were similar to the people's banks in some ways but differed in others. Like people's banks, Raffeisen societies were democratically-owned and controlled and were capitalized with members' deposits. Unlike the people's banks that paid dividends on members' shares, surplus earnings were placed in a reserve fund to increase the capital base of the society (Clements 1965:14; Purden 1980:11). While the Schulze-Delitzsch banks served a large, diversified economic community, the rural Raffeisen societies drew their membership from small rural districts--generally parishes.

These two forms of co-operative credit society had different aims and purposes. "The Schulze-Delitzsch banks were business organizations, whose primary objective was to promote economic self-sufficiency; the Raffeisen co-operatives were informal organizations [that placed] a strong emphasis on social purpose (Purden 1980:12)." Raffeisen societies sought to further the intellectual and moral well-being of their members through emphasis on neighbourly love, mutual aid and loyalty (Clements 1965:16-17). Of the two, the Raffeisen societies have lasted the longest and remain today an important banking institution in

A third important figure in the evolution of credit unions was an Italian, Luigi Luzzatti, who refined and modified the concepts of co-operative credit established by Schulze-Delitzsch. When the first credit union was founded in Canada in 1900 by Alphonse Desjardins, he was strongly influenced by the working rules Luzzatti developed.3

In 1866, Luzzatti opened a co-operative bank called "the People's Bank of Milan." This bank, while it resembled the people's banks of Germany, also incorporated some new elements. It adopted a member share structure, but set a low price on shares in order to attract a larger membership. Liability was limited and "honour" loans were issued without requiring collateral security. Loans were secured instead by the good name of the member, but this good name was determined by a credit-rating system which stressed the purpose to which the loan would be put. Luzzatti accepted the democratic management principle of one person-one vote, but expanded the opportunities for member involvement by structuring the bank with more elected officers and committees. Lastly, a reserve fund was set up and capitalized with an allocation of one-quarter of annual earnings (Clements 1966:16; Purden 1980:14; Axworthy 1981:74).

Co-operative credit was introduced in Canada by Alphonse Desjardins in the early 1900's. The situation in Quebec mirrored the one which prevailed in Europe: small businesspeople, artisans, farmers, and working people were forced to turn to private moneylenders because conventional lending institutions denied them access to credit. In order to relieve this situation, Desjardins decided to establish an alternative credit facility that would encourage saving and lend money on fair terms to low income people (Purden

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3 The two men corresponded for a number of years while Desjardins was working out the structure for the first "caisse populaire" in Levi, Quebec (Clements 1965:18).
On December 6, 1900, the first credit union in Canada, the Caisse populaire de Levis opened for business.

In designing the caisse populaire, Desjardins sought to combine the best features of the European co-operatives and added a few of his own innovations. He took from Raiffeisen, the bond of association membership; from Luzzatti, limited liability and 'honour' loans; and from Schulze-Delitzsch, the emphasis upon saving and thrift. To these elements he added a few of his own: a parish-based bond of association, a tripartite management structure, and the adoption of the basic democratic principles of co-operation (Clements 1965:18; Purden 1980:16; Axworthy 1981:74-75).

Financial conservatism was an integral component of the first caisse populaire. Loans were made to farmers, fisherfolk, shopkeepers and labourers for productive purposes and for the consolidation of debts, but not for ordinary consumption. Credit was also advanced for mortgages. Otherwise, saving was favoured over borrowing (Axworthy 1981:75).

The caisse populaire had both an economic and a social function:

Like the people's banks of Schulze-Delitzsch and Luzzatti, it emphasized members' savings as a basis for supplying loan capital; and like the rural credit societies of Raiffeisen, it aimed to improve the moral condition of its members, as well as their economic circumstances (Purden 1980:16).

The co-operative credit movement did not take root in English Canada until twenty-

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4 Management of the caisse populaire was the shared responsibility of three elected bodies: a board of directors, a credit committee and a supervisory committee (Purden 1980:18; Axworthy 1981:76).

5 The Rochdale Society of Equitable Pioneers, established in England in 1844, was the first cooperative enterprise to set out specific operating rules and policies. The "Rochdale principles," as these rules became known, have had a profound influence on cooperative development throughout the world. Desjardins is thought to be the first among the early leaders in the field of co-operative credit to apply these democratic principles of co-operation to the business of financial intermediation (Purden 1980:27).
five years after Desjardins founded the first caisse populaire. The idea of co-operative credit travelled first to the United States before returning to Canada via the Antigonish Movement in the early 1930's.

Initially the credit union movement in the United States grew very slowly, following the informal, parish-based organizing process pioneered by Desjardins. In 1914, Edward Filene, a Boston merchant, assumed active leadership of the credit union movement setting it on a very different development course.

Filene's goal was to extend credit union services to as broad an audience as possible because he realized that "mass consumer credit [had to] accompany mass production (Clements 1965:21)." The development strategy Filene advocated departed from Desjardins' approach in two significant ways. Firstly, the focus for credit union formation shifted from the community to the workplace. Secondly, the lending side of the operation was encouraged, in other words, borrowing for consumption purposes was encouraged (Purden 1980:21-22).

In 1921, Filene set up an agency called the Credit Union National Extension Bureau and hired Roy Bergengren as manager. The two men devised an approach that emphasized the enactment of credit union legislation in every state and the establishment of an integrated support system for individual credit unions made up of state leagues and a national association. The strategy proved very successful and the movement expanded rapidly throughout the United States (Purden 1980:23).

In the course of their development, American credit unions retained the original purposes, principles, and structure of Desjardins' caisses populaires, but added a new element: diversification of the bond of association. Membership took one of three forms: the occupational bond, applying to employees, trade, and professional groups; the associational
bond, embracing members of fraternal organizations, labour unions, farm associations, religious organizations and similar groups; and the residential bond, which applied to a geographic neighbourhood or community (Purden 1980:23).

While the credit union movement was expanding throughout the United States, a unique experiment in adult education was taking root in the fishing and mining communities of Nova Scotia. It was called the Antigonish Movement. In 1930-31, the movement turned to credit unions as an ideal way to demonstrate the potential of self-help. In 1932, the first two credit unions were founded in Nova Scotia with the help of Roy Bergengren from the United States. That same year, the first credit union legislation in English Canada—the Nova Scotia Credit Union Act—was enacted into law.

The Antigonish credit unions tended to be rural and small, with a common bond based on a community rather than on an occupation (Axworthy 1981:76). They had a flexible lending policy that combined elements of both their Quebec and American counterparts and added their own twist: loans to co-operative associations (Purden 1980:26).

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6The Antigonish Movement was a program of adult education and economic cooperation started in the 1920's in Nova Scotia by the Extension Department of St. Francis Xavier University in Antigonish, Nova Scotia. The leaders of this movement, key among them, Fr. Moses Coady, believed that through a process of self-education leading to co-operative action people could become "masters of their own economic destiny (Coady 1939:ix)." The study circle or discussion group was the primary technique used by Fr. Coady and other Catholic educators. The goal of these study circles was to help people in communities identify practical solutions to the difficult economic circumstances they faced and in particular to explore the potential offered by producer and consumer co-operatives.

7Extension workers would travel to many communities in Nova Scotia setting up study circles. They soon learned that in order to capture people's interest in study there was "need for a simpler project that would be generally applicable to the whole area and would arm the members with confidence and cooperative experience for the difficult business of establishing [other types of] co-operatives (Coady 1939:57)." People needed to study a specific economic venture that could be easily established and would demonstrate the value of co-operation and study. Credit unions were thought ideal for this purpose.
Of particular interest is the context within which Fr. Coady and other members of the Antigonish Movement viewed credit unions. Credit unions were seen to fulfil a dual purpose: they provided a practical tool around which people could organize and once established provided a pool of capital for people to finance their own economic development.

[The credit union] gives people something constructive to do during the first years of the co-operative program... It enables them to acquire experience in the techniques of group action and gives them capital for further cooperative work in the more difficult fields (Coady 1939:84).

Through the efforts of the extension workers of St. Francis Xavier and Roy Bergengren from the United States, credit unionism spread to the rest of English Canada. Between 1936 and 1940, every other province in Canada passed credit union legislation patterned after the Nova Scotia Act. Between 1930 and 1960 membership in credit unions grew steadily through the creation of new organizations. After 1960, the rate of growth increased significantly.
APPENDIX V

The Ottawa Women's Credit Union

A. The Ottawa Women's Financial Training Project

The program has been really successful. It is the reason that I have stayed at the credit union since 1983. It is a struggle; there are easier places to work, but the payback is worth it. I have seen close to two hundred women come through the program and have seen how it has changed the lives of many of them.

- Holly Hughes, Manager

The Ottawa Women's Financial Training Project is a training program for severely employment disadvantaged women. Women accepted into the program are low-income women, disadvantaged in securing long-term employment for reasons such as lack of education and job skill training, little or no work experience, long-term absence from the paid labour force or lack of life skills necessary to maintain employment (pamphlet titled, "The Ottawa Women's Financial Training Project," no date). To be eligible, a woman must be unemployed, have a minimum of grade 10 education and be willing to commit 6-7 months to the project and to finding full-time work afterwards (Catherine Keenan, personal communication, 23 July 1993).

The program works with continuous intake so that at any one time there are fourteen trainees working at the credit union. Women are trained for periods of 30 weeks or 26 weeks in one of the following areas: accounting (30 weeks), teller (30), loans (30), member service (26), administrative assistance (26). There are 6 positions of 25 weeks and 8 positions of 30 weeks. Each year 26-27 women graduate from the program. In total over 200 women have been trained in the 13 years since the program began. The credit union has
been very successful at placing trainees once they complete the program. The placement rate is very high, close to 80% (pamphlets, both). In the last few years, the rate has dropped. Due to the recession, competition for existing job opportunities is greater and there is less entry level hiring by the banks (OWCU Annual Report 1990/91).

The training given to the participants concentrates not only on the development of the job skills necessary for today’s job market, but also on the development of the "life skills" needed to ensure a stable career in the workplace. All of the skills taught are applicable to many different work environments from small businesses to large corporations as well as the ever-expanding financial services industry (pamphlet, "Ottawa Women’s Financial Training Project"). A training co-ordinator is responsible for participant recruitment, orientation, and delivery of both life skills and job skills training. She also assists them in finding employment once the program is completed.

Elements of the program include:

**Technical skills.** Training on the technical side of operations includes the use of some of the latest in office equipment as well as special training in services specific to the financial services industry--RRSPs, CSBs, Travellers Cheques, Money Orders and Certified cheques, etc. (pamphlet, "Ottawa Women’s Financial Training Project").

"Life skills." The training coordinator is also a "life skills" coach. Three days a week she works with the trainees in such areas as: problem-solving, assertiveness training, communication skills, decision-making, goal-setting, job-search, career options, and human and labour relations (Catherine Keenan, personal communication, 23 July 1993).
Job search (Graduate follow-up and assistance). The trainees are tracked for one year after they leave the program. Throughout this time, the training coordinator remains in close contact with them, helping them to prepare for interviews and offering any other assistance they may require, such as updating resumes (Catherine Keenan, personal communication, 23 July 1993). In order to facilitate trainee placement, the credit union maintains close touch with potential employers. OWCU also has a placement program that provides trainees with work experience while replacing vacationing employees in other institutions (Annual Report 1990/91; pamphlet, "Ottawa Women’s Credit Union").

Over the years the training program has changed. In 1980 the program began with 6 participants training for a full year. The training period was then changed to 42 weeks for all positions. Due to declining government assistance, training periods were further reduced to 26 weeks and 30 weeks in an effort to decrease per participant cost (pamphlet, "Ottawa Women’s Credit Union").

B. Challenges facing the credit union

The Ottawa Women’s Credit Union is facing a number of challenges—challenges that threaten its existence as a women’s credit union and as a training institution for employment-disadvantaged women.

The credit union is facing another human rights challenge to its right to exist as a "women’s" credit union. The fact that the bond is closed to men has lead to a number of challenges before the Human Rights Commission. The credit union won the first challenge back in 1985-86 because the institution was given status as a special program. However, there is another challenge pending, and the credit union staff have been warned that the OWCU will likely lose the case. The Ministry of Finance is willing to fight for their right to
a closed bond for women because there are all kinds of closed bond credit unions in Ontario and the Ministry believes that associational bonds need to be protected (Holly Hughes, personal communication, 27 July 1993).

Because of the withdrawal of government funding, the credit union, for the first time in 13 years, is faced with the question of whether it will be able to continue to fulfil its mandate as a training institution. There are some on the Board who feel that the training mandate is essential to the identity and usefulness of the credit union, that it should shut down if it cannot provide the training program. There are others who feel that the credit union has a duty to continue to provide service to the membership who chooses to deal with it. They argue that—as women are still discriminated against by the banking system—a credit union for women is still very important (Holly Hughes, personal communication, 27 July 1993).

Another option would be for the credit union to open its bond to men and become a community bond credit union. There is considerable debate about whether this would be a good or bad thing. Some members feel that the credit union would lose members. However, many women have said that they would bring all their accounts to the credit union if they could open a joint account with their husbands. On the positive side, if OWCU opened its bond and became a community credit union, there would be more potential for it to grow. Holly Hughes, the manager, believes that they could still meet the needs of women as defined in their mission.

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8 These women feel that without the training program, the credit union does not provide services that cannot be accessed through other community bond credit unions, that outside the training program, the credit union is not unique.
Ideally the credit union would have grown to support the costs of the training program. "In a large credit union, it would be wonderful. It would work; it would be a real investment on the part of the credit union and it would be a trade-off on the part of the members in terms of their return (Holly Hughes, personal communication, 27 July 1993." A bigger credit union could perhaps support the training program without the support of government.
APPENDIX VI

Criteria for CED Lending

In order for dollars to be invested in CED initiatives, the guidelines governing lending have to be broadened to include social and environmental objectives. The guidelines from two different Funds are listed below. The first is a community investment fund in a bank in the United States; the second is a community-based loan guarantee fund. Both provide excellent examples of the kinds of criteria that a credit union might consider adopting in order to encourage CED lending.

Socially Responsible Banking Fund - Vermont National Bank

The SRB Fund has five program areas: affordable housing, environment and conservation, agriculture, education, and small business.

AFFORDABLE HOUSING

Purpose: To provide low and moderate income families access to credit in their attempt to secure affordable housing. To provide creative financing to community groups, non-profit developers and private/public partnerships to ensure that housing is available to more families. Eligible projects include, but are not limited to: single family homes for low and moderate income families; community land trust properties, limited equity co-ops and condominiums; transitional housing and shelters; affordable elderly housing; affordable rental housing; mobile and manufactured homes.

Priorities: Special emphasis on housing organizations and projects which provide permanently affordable housing.
ENVIRONMENT AND CONSERVATION

Purpose: To provide financing to individuals and enterprises which have a positive impact on the environment.

Priorities: To assist projects committed to the long-term responsible use of land (i.e., use restrictions on agricultural land or the gift or sale of development easements in conjunction with the project). Special emphasis on enterprises which provide innovative models for environmental companies. This includes the financing of land for conservation purposes.

AGRICULTURE

Purpose: To provide financing for organizations, individuals and projects which provide ownership opportunities for family farms and agricultural enterprises in Vermont.

Priorities: To provide financing for projects developed by or in conjunction with non-profits or other agencies providing assistance to start up or low income farm families. To provide financing for land acquisition, equipment or working capital for projects providing innovative, sustainable and environmentally sound models of family farming or agricultural enterprise.

EDUCATION

Purpose: To provide financing to individuals and Vermont educational institutions.

Priorities: To assist educational institutions providing high quality, innovative organizational or curriculum development models. Special emphasis on individuals providing day care services, educational consulting or curriculum development services, or alternative education options. Emphasis as well on programs providing benefits to low income or special needs students.

SMALL BUSINESS

Purpose: To assist small businesses starting up, operating or expanding in Vermont, or organizations providing financing to those businesses.

Priorities: Special emphasis on women and minority owned businesses, rural businesses and businesses working in the other four SRB lending areas. Also special emphasis on businesses which provide new or creative models of ownership or operation and to those which provide jobs, training, educational benefits or a product or service which benefits low income members of the community.
The WomenFutures Loan Guarantee Fund

Eligibility Criteria


Background

The major objective of the WomenFutures Loan Guarantee Fund is to promote community-based business that involves women working together to build the social and economic health of our communities. Specifically the Fund was established to facilitate access to capital for groups with a focus on women’s collective or co-operative enterprise development.

The WomenFutures Fund will provide guarantees for loans from accredited financial institutions for projects that:

1. Meet the Essential Criteria established by the WomenFutures CED Society;

I. Essential Criteria

1. A group enterprise controlled by women;
2. Economic feasibility;
   a) Business plan: feasibility, financial projections, repayment schedule;
   b) We also want to know that your group is able to carry out the tasks to make a new business work well or to make an existing business work better. If group members do not yet have the skills and information, please include your plan for acquiring the necessary training. We are also interested in a description of your group’s process of working together.
   c) Your description of economic feasibility may also include services or products provided to workers such as on-site childcare, access to facilities or flexible hours of work. In situations where cash equity is not available, we may consider contributions of labour as "sweat" equity. We are also willing to assess the financial responsibility of the group as a whole, rather than each individual’s personal financial circumstances.
3. Democratic or collective governance structure that maximizes worker control and profit-sharing;
4. Social value of the product or service, particularly in terms of benefits to women and their families;

5. Commitment to a high standard of workplace health;

6. Evidence of community support for the enterprise;

II. Desirable Criteria

1. Affordability of the product or service;

2. Enhancement of the environment;

3. Special quality of life benefits;

4. Local buying policies;

5. Special contribution to the community;

6. Establishment or participation in a network.
APPENDIX VII

Addresses of Credit Unions Discussed in the Text

CANADIAN CREDIT UNIONS

Bread and Roses Credit Union
348 Danforth Avenue, Suite 211
Toronto, ON
M4K 1N8
(416) 461-7882 (ph); (416) 461-0920 (fx)
Manager: Tony Farebrother

Credit Union Central of Saskatchewan
2055 Albert St., Box 3030
Regina, SK
S4P 3G8
(306) 566-1382 (ph); (306) 566-1372 (fx)
Manager, Research: Jo-anne Ferguson

CCEC Credit Union
2250 Commercial Drive
Vancouver, BC
V5N 5P6
(604) 254-4100 (ph); (604) 254-6558 (fx)
Manager: Jill Kelly

Caisse Populaire Evangeline
(902) 854-2595 (ph); (902) 854-3210
Manager: Paul Richard

The Ottawa Women's Credit Union
210 Bank St.
Ottawa, ON
K2P 1W8
(613) 233-7711 (ph); (613) 233-6413 (fx)
Manager: Holly E. Hughes
Training Co-ordinator: Catherine O. M. Keenan
VanCity Community Foundation
4th Floor, 515 W. 10th Ave.
Vancouver, B.C.
V5Z 4A8
(604) 877-7553

Executive Director: David Driscoll

VanCity Credit Union
515 W. 10th Ave.
Vancouver, B.C.
V5Z 4A8
(604) 877-7657

Contact: Pieter van Gils, Membership Development Officer

VanCity Enterprises Ltd.
4th Floor, 515 W. 10th Ave.
Vancouver, B.C.
V5Z 4A8
(604) 877-7546

President: Chris Catliff

AMERICAN CREDIT UNIONS

Alternative Federal Credit Union
301 West State St.,
Ithaca, NY 14850
(607) 273-4611 (ph)

Manager: Bill Myers

Self-Help Credit Union (and Development Bank)
409 E. Chapel Hill St.,
P.O. Box 3619
Durham, NC 27702-3619
(919) 683-3016 (ph); (919) 688-3615 (fx)

Executive Director: Martin Eakes

National Federation of Community Development Credit Unions (NFCDCU)
59 John St., 8th Floor
New York, NY 10038
(212) 513-7191 (ph)
COMMUNITY DEVELOPMENT BANKS

Socially-Responsible Banking Fund
c/o Vermont National Bank
Box 804
Brattleboro, VT 05302-9987

Shorebank Corporation (South Shore Bank of Chicago)
1950 East 71st. St.
Chicago, Illinois 60649-2096
(312) 288-1000