

# **Hands Around The Globe**

## *The International Credit Union Movement*

### **The Dynamics of Credit Unions**

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#### **Introduction**

*The international credit union movement has a long and deep history. It can be seen, to some extent, as emanating from those informal mutual-aid traditions that, in many parts of the world, go back as far as anyone can remember. More narrowly, it can be seen as an important descendant of the community co-operative banking tradition that started in Europe in the middle of the 19<sup>th</sup> Century. From yet another perspective, it is a movement with a thousand beginnings, one for each of the local, regional and national movements that today make up the international credit union family.*

## **Traditional Responses to Emergencies**

Mutual-aid and wealth-sharing organisations are called different names in different parts of the world. In China they are *lin-hui*; in Ethiopia, *ekub* and *neklondi*; in Benin, *ndjonu*; in Egypt, *gameya*; in Sudan, *sanduk*; in Liberia through to Zaire, *esusu* or *osusu*, sometimes *cha* and *adish*; in South India, *nidhis*; in other parts of India they are referred to as *chitty* or *chit* or *chit funds*. In Belize, they are *syndicate*; in Sri Lanka, *cheetu*; in Lesotho and Cameroon, *djanngi*; in Jamaica, *partner*; in Tanzania, *upatu*; in Uganda, *kwegatta* or *chilemba* (sometimes spelled *chilimba*), a name also used in Malawi, Zambia and Zimbabwe; in Pakistan, *bisi*; in Thailand, *len chaer* or *bia huey*; in Ireland, *meitheal*; in Japan, *mujin*, *hootoku* and *ko*; in Nepal *dhikuri*; in the Philippines, *paluwagan*; and in French-speaking Africa, Malaysia and Singapore *tontine* or *kootu*, the latter a name also used by Tamil peoples. In Scotland, reciprocal loan groups were called *menages*, and in England, *slates*. Some West African people call them *sou sou*, as they do in Trinidad; in Indonesia they are called *arisan uang* (*mapalus* in North Sulawesi); in Mexico and Puerto Rico, *cundina* or *tanda*; in Antigua, *box*; in Guinea, *boxi*. Bahamians use the name *asue*; Koreans call them *kei,kae* or *kye*; Fijians, *kerekere*.

People have used these informal savings and lending associations for centuries to help each other through difficult times, to educate children or to finance special occasions such as weddings or funerals. They work in somewhat different ways around the globe, but in their most common form, individuals who join the organisation make regular deposits to the person responsible. Contributors can then borrow from the accumulated pool, typically on a rotating basis, for such purposes as the purchase of consumer goods, the payment of medical expenses or the construction of housing. For the most part, these organisations meet the needs of their members or participants well, but, in their traditional forms, they are also unregulated and transitory: typically, they last for only one season and are used only when other ways to avoid disaster cannot be found. During the last 150 years more formal and regulated structures in the form of credit unions have emerged across the globe.

## **THREE PERSPECTIVES**

Why are Credit Unions organised? How are they created? How do they generally develop? What are the common patterns in their development? What are their priorities? Do those priorities change as they grow? What are the trends they tend to follow as they develop over time?

There are no easy answers to these questions. The history of the international credit union movement can be viewed from at least three broad perspectives that are not so much competing frameworks as overlapping yet distinctive ways of understanding where credit unions fit into the sweep of history. Those three perspectives are:

- Credit Unions – An Adaptable Framework
- The Traditions of Banking Co-operatives
- The North American Background

### **Credit Unions – An Adaptable Framework**

Credit unions can be seen as a form of organisation that is more culturally empowering than it is culturally bound. This perspective emphasises the capacity of the credit union (and co-operative) form of organisation to adapt to local circumstances and to be shaped by them. It

means that credit unions are essentially representative of local conditions: that they are a flexible form of organisation animated by the needs, ambitions and cultures of people around the world.

From this viewpoint credit unions become a malleable kind of institution that absorbs, with unerring accuracy, that main trends in a steadily growing number of countries and societies; it is more a matter of diversity than it is a North American or European phenomenon writ large. This somewhat ahistorical perspective, most readily found outside North America, encourages the pride that people in other countries have in their own movements and helps to explain some of the unavoidable tensions within the international movement. It also reflects in both obvious and subtle ways indigenous traditions of mutual aid and self-help.

## **The Traditions of Banking Co-operatives**

The history of credit unionism can be situated within the tradition of community-based co-operative banking with roots customarily traced back to Germany in the middle of the 19<sup>th</sup> century. From this perspective, credit unions are part of an international co-operative movement that has typically found its strongest supporters in countries experiencing rapid modernisation, particularly societies being transformed by industrialisation.

For over 150 years this kind of co-operative endeavour has grown steadily, albeit in somewhat different forms around the globe. Its success is a remarkable testimony to the efficacy of the co-operative approach to economic and social organisation, the capacity of democracy (no matter how imperfectly practised) to operate in the marketplace, and the ability of human beings to work together. The contemporary extent of this wide and diverse kind of human activity suggests that credit unionists should reflect upon how associations with this wider and historic family might be fostered and expanded; much of their future may be inherent in their past.

## **The North American Background**

The third perspective emphasises the North American background of the movement, a story that emerges primarily from the United States and, to a lesser extent, Canada. Following the pioneering work of Alphonse and Dorimene Desjardins in Quebec at the turn of the 20<sup>th</sup> century, the movement spread to the United States where it gained remarkable strength, initially serving the needs of working people and then other groups in society. Beginning in the 1930's the movement spread to English-speaking Canada, which developed a movement similar to the one that had emerged in the United States.

From an international perspective, the experiences and values of northern North America essentially shaped the three movements. They were individually and collectively taken outward from the two countries to many other parts of the world; in particular, the experiences and leadership of the American movement did much to shape the movement around the world.

The global expansion of credit unions, therefore, can be seen as an aspect of the rise of North American society in the 20<sup>th</sup> century. Inevitably, it transmitted the values and assumptions of that society even if, in some ways, it was critical of aspects of life in the United States and Canada. In the curious way in which many co-operative experiments are both critics and proponents of the societies in which they function, the credit union movement carried much that was good but also much that was questionable from the North American homelands.

This perspective on credit unions is most naturally held by North American credit unionists, who are justifiably proud of what their movement has accomplished. They have been anxious

to share that experience – and the lessons derived from it – with the rest of the world. At the same time, they have been insensitive to the different ways in which credit unionism has been absorbed into other societies.

There is merit in remembering all three perspectives, even if they sometimes create different understandings of what happened. As in the case of so much historical enquiry, the best views are not found on only one mountaintop; rather they are found in trying to make the best sense of what several perspectives reveal. The results of that kind of enquiry can be awkward and less definitive than some would like, but they may provide a more acceptable explanation for what has occurred.

## SPHERES

### Members

Credit unions can be understood by thinking about how they operate within five spheres of activities. The first, the way in which they relate to their members, is a complex and changing sphere of activity, related to the size of the credit union, its stage of development, the technology it employs, the nature of its management, and the amount of resources it has available at any given time.

In their origins, most credit unions had a remarkably clear idea of membership: they were *ordinary people*, for many years captured perfectly by the symbol of *the little man under the umbrella*, protected from the rain of *hard times, sickness and financial distress* by his credit union. As much as it represented protection, however, *the credit union idea* also meant an affirmation of the capacity of ordinary people to control and thus to shape, their own destiny.

In the original configuration of this idea, best associated with the work of Edward Filene, Roy Bergengren and Moses Coady, the focus of credit union activity was the working class, both urban and rural. The message to the members of that class made several points:

- thrift would ultimately permit more prosperity than could readily be appreciated;
- the study of economics and the operation of credit unions was a significant form of empowerment;
- the credit union movement was a form of education as much as a tool for economic betterment; and people working together locally, regionally and internationally could create a fairer world.

As the years went by, the focus on the working class became somewhat blurred, particularly in the more economically developed countries. The movement reached out to many different kinds of people and some groups – for example, those in the public service and teaching – had achieved economic stability, if not high financial status. As a result, emancipation became narrower and more nuanced and credit unions sought out more financial *products* that would help members better understand and manage their own economic affairs. It was an important and often difficult transition.

### Community

Credit unions have deep and abiding connections to the communities in which they exist, based upon bonds of association, which can be either *closed* or *open*. Closed bonds refer to credit unions with membership restricted to those who work in a specific organisation (private company or government department) or who belong to a specific church or ethnic community. By their nature, these bonds promote a notion of community of like-minded

people who share a considerable portion of their lives in one way or other. As a result, the webs holding their credit unions together can be strong and intricate, especially since they are reinforced by the need to understand their members well in order to extend credit.

The community credit union, with the looser bonds of open association, is based on geography, often at a neighbourhood level when it begins. As they grow, such credit unions tend to serve people in a town, even a city, and the role of community becomes less clearly focussed, though not necessarily less important. Community credit unions rely for their success upon vibrant communities, and, as social institutions, they usually recognise a responsibility to enhance the lives of those who live within them.

## **State**

Credit unions are organised under regulations provided by state, provincial or federal governments. From the earliest period in American credit union history, credit unionists have placed great emphasis on the importance of good legislation for at least four reasons:

- it defines the governance structure of credit unions;
- it stipulates many of the relationships between credit unions and government officials;
- it normally establishes the fiduciary responsibilities of directors; and
- it often affects the taxation position credit unions enjoy.

More subtly, credit unions are potential providers of all kinds of services, and many consider them agents of economic and social change. Thus they have a need to be at least well informed about government policies, and they need to be heard as governments and their citizens seek to shape the future. They should not be simply organisations destined to act as niche players in locations and circumstances that the really important financial institutions leave unattended.

## **Structure**

The fourth sphere of activity involves the ways in which credit unions associate with each other at local, national and international levels. This has always been, and will always be, a difficult issue for organisations built upon the principle of member control and traditions of local responsibility. Without exception, every national movement has to struggle regularly with the most effective way in which to organise its affairs. They have to cope with differences caused by widely varying sizes of institutions, competing managerial groups, cultural differences and, occasionally, political disagreements.

Similarly, national movements often found it challenging to work out appropriate structures for continental or regional associations. Although desirable for both philosophical and business reasons, unity requires continuous deliberation and conformity with the general purposes of credit unions at the local level.

## **Management**

The continual search for better management practice is a pressing priority for credit unions in all stages of their development; without careful attention to it, they will not survive. In the early stages, the emphasis is on educating volunteer leaders so that they can carry out their responsibilities in running financial institutions. The emphasis then turns to training secretary-treasurers or managers and, subsequently, to the integration of a series of financial specialists, such as accountants and professional lenders.

*Management* is always a vital sphere because it is central to how the contending interests within a credit union are balanced. There will always be different priorities for those who are essentially savers and those who are primarily borrowers. There will always be a tension between democratic impulses and the need for efficiency, between individual and community priorities, and between present needs and future requirements. Accommodating these different interests becomes a perpetual challenge for credit unions, and their success in meeting it is the true, best test of their efficacy as credit unions.

The management sphere is particularly complex, because it requires not only absorbing the *best practices* followed by managers in private industry but also finding the best ways to apply credit union/co-operative principles and methods. Nor is it a matter simply for employed managers: it demands the attention of the elected leaders who, in ways distinctive to co-operative structures, have their own responsibilities and accountabilities. It also should reach out to members of credit unions – they too have their stewardship responsibilities.

Put another way, the sphere of management is particularly challenging because it is the sphere within which the activities of the other spheres typically become concentrated on a daily basis. Its further complexities can be seen when one realises that credit unions typically are dominated by cultures that continually struggle within organisational practices and structures, cultures that change as credit unions go through different stages of development.

## **CULTURES**

In addition to the three perspectives from which the history of the international movement can be seen and the five spheres of activities in which they typically operate, there are also three kinds of institutional cultures that typify the historical development of credit unions. It is important to note, however, that there is no necessary progression from one culture to another: individuals, credit unions and credit union movements can choose their culture – as long as the consequences of that decision are clear, affordable and acceptable.

### **The Populist Culture**

The first kind of culture – first, because chronologically it tends to be first – can be referred to as *populist*. The term *populist* fits because it refers to credit unions with deep commitments to the practice of direct democracy: the kind of democracy historically associated with Athens, the democracy in which all citizens are directly involved in all key decisions. An inevitable corollary of that emphasis is a general suspicion of delegated democracy and domination by professionals. Characteristically, populist credit unions evince an abiding commitment to their communities, however that might be defined – by geography, association or employment. That emphasis means a strong commitment to the social dimensions of credit unions: support for education, sponsoring of entertainment, concern for youth, and care of the unfortunate. As for growth, the standard response from credit unions dominated by this culture is the creation of new credit unions, usually serving small numbers of members.

The vitality of a populist institutional culture typically depends upon small groups of enthusiasts who create the credit unions, attract the support of government, and develop associations and institutions (typically leagues) geared essentially to the promotion and support of new credit unions. They are deeply committed individuals, often greatly influenced by religious or political beliefs that make them willing to undergo great sacrifices for the movement.

In most instances, work within populist credit unions is exciting and invigorating, particularly for those engaged from the beginning of the formative period. The challenges and sacrifices inevitable in mobilising people, creating enthusiasm, struggling against adversity, and

meeting the specific and pressing needs of particularly deserving members create the traditions which often later sustain the movement.

Credit unions steeped in the populist culture almost invariably emphasize their capacity to emancipate *the little man* from the bondage of economic deprivation; it is an emphasis that adds an abiding emotional dimension to the movement. It creates a powerful vision that is not necessarily just a passing phase: several credit union movements, most notably in Ireland, Sri Lanka and the Philippines, retained their populist perspectives even when their movements became large and sophisticated. Smaller closed-bond credit unions, even in the most market sensitive environments, frequently retain a deep sense of member ownership and responsibility; they often rely extensively upon volunteer labour.

### **The Managerial Culture**

The second kind of applies to credit unions in which managerial issues dominate the operations and purposes of the organisation. Almost invariably, credit unions reflecting this culture place increased emphasis on the managerial sphere of their activities. In fact, unless the members, elected leaders and managers are careful, credit unions caught up in managerial pre-occupations can ignore their commitments to help members, as opposed to turning them into customers to be manipulated – they can forget the communities that once gave the organisation meaning and focus.

The emergence of strong managerial groups in credit unions also tends to create issues around leadership, resource allocation and voting structures within central organisations, such as leagues and centrals, issues that often prove to be particularly divisive, even debilitating. Ultimately, too, the increased emphasis on the managerial sphere challenges original assumptions about democracy and requires innovative thought and action that conform with the basic values upon which credit unions, like all co-operatives, should be based.

### **The Structuralist Culture**

The third kind of culture refers to credit union organisations that are strongly committed to the growing integration of credit unions within state, provincial, national, regional and international structures. While this goal is always present within credit union movements, it is a culture that frequently competes with the values of populist and managerial cultures; indeed, those struggles underlie many of the continuing tensions and issues in movements across the globe.

The problem of how best to create a culture that fosters the national, regional and international integration of credit unions has bedevilled leaders for generations. The issue in the past has generally been how to create structures that are cost effective, will meet the needs of different kinds of credit unions, and can enlist the support of leaders who often do not work together easily. The issue, as the 21<sup>st</sup> century approaches, is how best to construct an international movement, enlisting the support of similar organisations, so that financial services based on democratic control can survive in an age when technology and capital concentrate power, even more than in the past, in the hands of the few.

## STAGES

There are at least three stages through which credit union movements typically develop.

### The Formative Stage

During the earliest stages of their development, credit unions have to rely upon the support of patrons, other institutions, government departments or funding agencies; despite common mythologies, they are rarely able exclusively to *pull themselves up by their own bootstraps*. They also have to utilise networks provided by such institutions and groups as churches, farmer organisations, other co-operatives, trade unions and professional associations.

The organising networks provide the means whereby movements reach out to communities of people already drawn together for a purpose. They can also provide leaders with legitimacy in communities and among their peers; legitimacy is essential in the development of any financial institution, but especially one built on common bonds.

In time, through, these networks can inhibit development once credit unions are up and running. In many instances, the leaders provided by the networks may have a very specific set of goals, and they can also tend to be paternalistic, depending upon their motivation. The result is that the necessary managerial and technical changes may be inhibited by the *founders*: revered individuals who have made great contributions but who, as they age and the institution they helped found develops, may hold back necessary change and new generations of leadership.

During the formative stages, credit unions do have a limited set of needs that can be met by central organisations. They require education and training programmes, public education or promotion, lobbying of government to secure good legislation, some inter-lending activities, the provision of insurance services and the procurement of inexpensive supplies. Typically, therefore, credit unions with populist cultures tend to very common within movements in the formative stage of development.

### The National Stage

The second stage of development occurs as credit union movements from state, provincial and national organisations. It is the result of increasing sophistication among a significant number of credit unions. The existing state, provincial and national institutions are required to undertake more activities related to the expanding economic activities of the credit unions; typically, these new or enhanced activities are related to changing technological requirements, more complicated and riskier lending practices, new financial *products*, enhanced marketing programmes, and higher degrees of technical competence.

This transition usually brings about periods of intense debate over such issues of funding formulae, control systems, the roles of members and volunteers, relationships among different sizes and types of credit unions and, a frequent by-product of all the others, managerial competence. On occasion it can lead to serious fragmentation: the creation of rival groups of credit unions, and credit unionists. To some extent, the debate can be seen as the result of differences of opinion between credit unions steeped in populist cultures and those exhibiting the characteristics of managerial cultures.

The second stage of credit union development, however, is a particularly creative stage. Normally, it is the time when credit unions reach out to larger constituencies, provide more services to their members, and begin to have a significant impact on the general economy.

## **The International Stage**

It is a paradox – but an understandable one – that international organisations, which may be seen as the top of the hierarchy, have the most difficulty in gaining authority and influence. A simple explanation is that credit unions, like other co-operatives, have a primary commitment to local communities and groups: they delegate sparingly and question authority regularly.

Thus, although internationalism has been evident in the history of credit unionism from its beginnings, and a universal view is deeply entrenched in credit union – co-operative thought, the road toward a strong international presence has been long, slow and arduous. In fact, it is a stage that arguably is just beginning; in an age when the concept of globalisation has a particular resonance, it will surely reshape the credit union world.

## **A People's Movement**

Three different perspectives, five spheres of activity, three institutional cultures, three stages of development – such are the warp and woof of credit union history. The colours and patterns, however, flow from the efforts and convictions of people struggling to control their economic destiny. The details and texture of the history result from the specific realities that pre-occupy ordinary people; not even in credit unions whose size and sophistication may delude their leaders into thinking they do not have to listen to their members can that connection be completely severed. In the final analysis, credit unions are *a movement of and for the people*, or they have little reason for being. Amid all the perspectives, spheres of activity, institutional cultures and stages of development, there must be a continuity of values and purpose. There is a set of responsibilities and a particular kind of dignity that emanate from that simple fact.

## **Further Information**

This paper is an edited version of the introductory chapter to Ian MacPherson's splendid history of the international credit movement.

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For a details on how to purchase a copy of the book and/or obtain further information on credit unions contact:

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