

Credit Unions and Job Creation



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EXECUTIVE SUMMARY

Credit unions must find new ways to invest in their communities in order to more fully embrace their social principles. Investing in community based job creation initiatives is an important means for credit unions to reduce local unemployment and improve the living standards throughout their communities. Now is an opportune time for credit union boards of directors to consider how they can assist in local job creation and to include such considerations within a strategic planning exercise.

This report is designed as a discussion document for all credit union practitioners and aims to examine the issues of credit union involvement in local job creation. It explains some of the basic needs of small community-based businesses and presents some arguments as to why credit unions should get involved in assisting these businesses and thereby aid local job creation.

The report is based on a detailed research survey of twenty Irish credit unions, half of which are actively involved in local job creation, although all of the credit unions surveyed lend to local business. Four of the credit unions operate loan venture funds and two have established enterprise centres. A number of the credit unions have given once-off donations in support of local job creation initiatives.

Jobs have been successfully created through the efforts of these credit unions. However, a large majority of Irish credit unions remain reluctant to involve themselves in such activities. Credit unions must learn to support each other and be prepared to learn from one another in the task of job creation. Alternative approaches to assisting in job creation are presented to show how credit unions may also consider linking with existing local employment initiatives.

The report concludes by suggesting some ways in which the credit union movement, at all levels, can begin to develop an effective work programme for job creation.

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1. Introduction to the report

A small number of Irish credit unions have, in the past decade, become involved in local job creation strategies in response to unemployment in the common bond. Although the Irish credit union movement has no formal, stated policy on job creation there appears to be a growing interest by credit unions in getting involved. This is for two main reasons: firstly credit unions are becoming more sophisticated in responding to social problems and, secondly, more and more credit unions have surplus funds to invest in the current low-interest rate environment.¹

This report recognises the importance of credit unions in providing local employment within their own offices and sub-offices. It also acknowledges the *indirect* contribution of credit unions to the creation of jobs by lending to local businesses and farmers. The report focuses, however, on more direct *means* of involvement by credit unions in local job creation.

The report aims to:

- present arguments as to why credit unions should get involved in this type of activity;
- explore the reasons why credit unions are not getting involved and investigate the perceived barriers to involvement;
- examine the types of job creation activity undertaken by Irish credit unions (best practice nationally);
- investigate some further strategies for credit union involvement.

An exploration of the field of job creation by credit unions at this time is particularly valuable as credit unions and the overall Irish movement are engaged in an important strategic planning process. It is intended that this report be a discussion paper and a starting point for all credit union activists who wish to reflect on the issue of job creation and to integrate such activities into the overall plans for their credit union and for their movement.

¹ According to the ILCU Annual Report 1998, p. 41, only 63.8% of credit union assets represent loans to members and this percentage is falling annually.

2. Methodology

Review of the issues

This report grew out of a belief that credit unions have a significant role to play in their communities in the area of job creation. Many Irish credit unions have already become involved in this form of activity although they represent a tiny percentage of the whole Irish movement.

A number of government reports and other documents are examined in this report in order to review the issues of unemployment, job creation and the needs of small businesses and new start-up ventures. Various credit union reports are also examined to detail the actual involvement of credit unions in this area of activity as well as to determine the level of interest among credit union personnel.

Primary research

To shed further light on these issues, a discussion questionnaire was drawn up which was used as the basis for semi-structured interviews with credit union personnel (See Appendix One for further details). Initially, a pilot survey was conducted on the seventy or so participants at the Diploma in Credit Union Studies 1997 Summer School, held at University College Cork, to test the usefulness of the questions in the interview schedule. This initial survey was also used to identify Irish credit unions involved in job creation initiatives.

The credit unions studied and their key witnesses were identified as follows:

Step One: Ten credit unions were identified as being directly involved in job creation within their communities. While the list of credit unions drawn up was not deemed to be exhaustive it was felt that it was certainly more than representative of the number of credit unions who could genuinely be included in a report of this nature. These credit unions spanned eight counties, six from Munster, three from Leinster, and one from Ulster.

Step Two: The next step involved the identification of 'matching' credit unions for each credit union chosen in step one. The criteria for choosing a matching credit union were that its asset size and chapter area were similar to its counterpart in step one and that it was not directly involved in job creation. The matching credit unions covered six counties, seven from Munster, and three from Leinster. This resulted in a total of twenty credit unions being chosen for the report. These twenty credit unions ranged in membership from 3,000 members to over 20,000 and in asset size from £3 million to almost £40 million.

Step Three: The next important component of the research process was the identification of key witnesses in each of the twenty credit unions. A member of the credit union who was known by the authors (or through consultation with other credit union activists) to have knowledge of the topic of the report was selected for interview. This resulted in interviews with nine directors and fourteen managers. Each credit union was visited personally.

It is important to state that in answering some of the questions for which an opinion was required, the interviewees stated that their views did not necessarily reflect the views of the board of directors of their credit union and, in some instances, they would not know the opinion of the board on the matter. However, interviewing the

entire board of twenty credit unions was beyond the scope and resources of this report.