



Llywodraeth Cymru
Welsh Government

www.cymru.gov.uk

An Evaluation of the Access to Financial Services through Credit Unions Project: Final Report

Research Summary

Social research

Number: 51/2014

The Department for Local Government and Communities (DLGC) of the Welsh Government commissioned an evaluation of the Access to Financial Services through Credit Unions Project (referred to as the Credit Unions Project) in 2011. The long-term evaluation was undertaken between 2010 and 2014 by Old Bell 3 Ltd.

This is the fourth and final report of the evaluation which aims 'to assess the impact and effectiveness of the access to financial services through credit unions project and the extent to which its aims and objectives have been met'.

Introduction

The Credit Union project was first introduced in April 2009 and during its initial phase one pilot funding of £1.9 million (both capital and revenue) was made available via Welsh Government and EU Convergence region funding to support the expansion and sustainability of Welsh credit unions. The Wales Co-operative Centre was procured by the Welsh Government to administer the credit union funds and to provide support to the sector.

Our First Year Report found that the EU funded project either met or exceeded four of its Welsh European Funding Office (WEFO) targets but failed to meet the fifth and final target of supporting 2,847 individuals to access financial services. The main challenges identified during our evaluation of phase one related to the disconnect between the targets of the Credit Union Action Plan, the WEFO Business Plan and contractual targets for individual credit unions, as well as the lack of consistency in terms of defining WEFO funded targets.

The second phase of the project commenced in October 2010 and came to an end in December 2013. This second phase was funded with just under £3.5 million, with £1.88 of this being EU funding. In June 2013 the Welsh Government announced that additional funding was available to the sector until March 2014 and at mid-March (after our fieldwork had been completed) it announced that a further £1.7 million would be made available to the sector until March 2017.

The aim of the second phase of the project was ‘to support the development of a strong, sound and effective credit union movement in Wales which provides an accessible, affordable and comparable, high quality financial service, able to meet the needs of all Welsh citizens, and especially those in greatest need.’¹

Over the second phase of the project 17 credit unions were supported via Service of General Economic Interest (SGEI) Funding

Agreements. In addition the Welsh Government contracted the administration of funding agreements as well as provision of support to credit unions in Wales to The Social Investment Business (TSIB).

Methodology

This final report is based on a work programme undertaken between September 2013 and January 2014 and builds upon the findings of an interim evaluation conducted between May and November 2012. The work programme for this report has involved:

- Attending a planning meeting with the Evaluation Steering Group to agree the final evaluation work programme;
- Updating the literature review of UK and Welsh policy and legislation;
- Reviewing key developments relating to pay-day lending and the impact upon the sector;
- Reviewing phase two project delivery documents and monitoring data;
- Reviewing Welsh credit unions financial and performance data;

¹ Access to Financial Services through Credit Unions (Phase Two) Business Plan prepared by Welsh Government and submitted to WEFO (Case ID 806617) Page 3

- Updating research instruments and undertaking stakeholder consultations;
- Undertaking in-depth visits to eight credit unions and interviews with the managers of a further five credit unions;
- Re-visiting three 'control' Credit Unions not involved in the project.

Findings

The project has been delivered within a supportive UK and Welsh Government policy context – indeed the political support has intensified of late given the growing issues associated with pay day lending. However despite several recent Welsh Government announcements of additional funding for the sector there has been no specific and detailed Welsh Government Policy Statement set out since the Credit Union Action Plan came to an end in 2013.

Our research found that the Credit Unions project was relatively successful in meeting its aims and objectives and that reasonable progress, albeit not consistently so

across the credit union movement, was made towards the objective of providing 'an accessible, affordable and comparable, high quality financial service'. Some progress has been made towards developing a 'strong, sound and effective credit union movement' albeit that the continued rifts within the movement suggest that this has not been fully achieved.

Overall the project has performed reasonably well against its WEFO funded targets and performed exceptionally well against its target for supporting financially excluded individuals by supporting over 23,000 financially excluded individuals – credit unions are to be commended for their efforts to increase their membership amongst this particular group. Good progress has been made towards the targets for 2020 set out by the Credit Union Action Plan and whilst these targets are highly challenging they are achievable provided Welsh Government financial support is continued. The evidence points to a growth in credit union membership and reasonable growth in asset base and loan portfolio over the project duration and the feedback suggests

that much of this growth is attributable to SGEI funding support made available. Whilst there have been some improvements to the financial structure of credit unions (e.g. a reduction in bad-debt) credit unions are still fairly weak in this respect in that they still maintain very high operating costs and continue to hold more cash reserves than desired. Our most recent phase of fieldwork revealed a radical shift in credit unions attitudes towards becoming financially sustainable organisations albeit that many are still heavily reliant on Welsh Government funding to support their operations at this point in time.

We conclude that the project could have achieved better value for money but that the severe limitations of the data available restricts a full assessment of economic impact. Indeed we strongly suggest that any future project captures the value of loans awarded in order to quantify the impact of support provided.

Recommendations

The evaluation makes six recommendations, namely that:

1. the Welsh Government should clarify and publish its

intentions for the credit union sector in Wales via a Policy Statement which would build upon its communication to the sector during 2013, and give due consideration as to whether its goal of supporting the provision of financial services for financially excluded individuals can only or most appropriately be addressed by credit unions.

2. if the Welsh Government wish to continue its policy objective of supporting the provisions of financial services to financially excluded individuals then it should review the way in which these services are funded to ensure the best value for money. To achieve this we suggest that funding be made available on a competitive basis and that the Welsh Government acknowledges that supporting financially excluded individuals requires ongoing funding, particularly within the context of the dramatic

- increase in debt and use of payday loans.
3. the Welsh Government requests that service providers contracted to deliver services to financially excluded individuals report upon the number of financially excluded individuals supported, the number of loans awarded to these individuals as well as the value of loans issued to this group in order to be able to better report upon the economic impact of intervention and the value for money achieved.
 4. the Welsh Government should expect service providers to meet minimum operating criteria as part of any future Service Provision contracting requirements. This would mean for instance that the Welsh Government should expect service providers to offer accessible services to customers be that in the form of longer opening hours (e.g. between 9am and 5.30pm on at least two days a week) or via on-line platforms (e.g. the ability for customers to apply for loans on-line and to view on-line statements etc).
 5. should the Welsh Government wish to continue its commitment to developing financially sustainable credit unions then it ought to provide Investment Support on a tapered basis to credit unions accordingly, and separately from funding for the provision of services to financially excluded individuals. Future funding for this purpose, both capital and revenue, ought to be dependent upon credit unions submitting acceptable business plans which clearly outline how they intend to become sustainable operations within a time bound period and which provide assurance of good governance.
 6. the provision of support services to credit unions (including in relation to strengthening governance) be maintained in the future

and that this be made
available via the Welsh
Government Investment
Support provided to credit
unions.

For further information, please
contact:

Dr Michael Harmer
Knowledge and Analytical Services
Welsh Government
Merthyr Tydfil Office
Rhyd-y-car
Merthyr Tydfil
CF48 1UZ
Tel: 0300 0628500
E-mail:
michael.harmer@wales.gsi.gov.uk
<http://www.wales.gov.uk/research>

Welsh Government Social
Research, 29 May 2014
ISBN: 978-1-4734-1313-9
© Crown Copyright 2014