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Welsh Government

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

Research Summary

Social research

Number: 51/2012

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 in 2011. The long-term evaluation, which is being undertaken by Old Bell 3 Ltd, aims to assess the impact and effectiveness of the project and review the extent to which its aims and objectives have been met.

The evaluation is being carried out over three distinct stages. A formative evaluation was carried out during 2011 and led to the publication of a First Year Report. This second year report (Interim Report) presents the findings of fieldwork undertaken between May and November 2012.

Introduction

The Access to Financial Services through Credit Unions Project (referred to as the Credit Unions Project) was first introduced in April 2009 and during its initial phase one pilot, £1.9 million was made available via Welsh Government and EU Convergence region funding (both capital and revenue) 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 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 disconnection between the targets of the Credit Union Action Plan, the WEFO Business Plan and credit union contractual targets, as well as the lack of consistency in terms of defining WEFO-funded targets.

Dadansoddi ar gyfer Polisi



Analysis for Policy

The project is currently midway through its second phase of delivery (October 2010 until December 2013) and is being funded with just under £3.5 million (£1.88 million of this being EU funding). Its aim is ‘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

17 credit unions are currently being supported by the project via Service of General Economic Interest (SGEI) Funding Agreements and the Welsh Government continues to contract the administration of the second phase funding agreements as well as the support provision to the credit unions sector in Wales to The Social Investment Business (TSIB).

Methodology

This interim report is based on a work programme undertaken between May and November 2012 which involved:

- attending a planning meeting with the Evaluation Steering Group to agree the interim phase work programme;
- updating the literature review of UK and Welsh policy and legislation;
- reviewing phase two project delivery documents and monitoring data;
- reviewing Welsh credit unions financial and performance data;
- developing research instruments and undertaking stakeholder consultations;
- undertaking in-depth visits to eight credit unions and facilitating a focus group with members of the All Wales Credit Union Liaison Group; and
- undertaking interviews with three ‘control’ Credit Unions not involved in the project.

Findings

Our research found that the Welsh policy context for credit unions remains supportive, albeit that recent Welsh Government actions and decisions have intensified the debate about whether expectations for the sector are focused upon the provision of financial services to excluded individuals as opposed to

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.

developing self-sustainable credit union sector – and whether these two goals are in conflict. The difficulties associated in pursuing both objectives have become even more profound for credit unions as they enter the last year of their SGEI funding agreements – with several now facing critical decisions around which avenue to take given that funding post-2013 looks unlikely.

We are of the view that the Welsh Government needs to clarify its policy in this area and suggest that if the long-term policy goal is to provide financial services to financially excluded individuals, then there is a strong argument for on-going compensatory funding to provide such services. If (either instead of, or as well as, the goal of providing services to the financially excluded) the Welsh Government remains committed to building financially sustainable credit unions as a goal of public policy, then we believe it will need to adopt a different and separate approach to providing core funding to credit unions in future.

Despite these conflicting policy issues we are of the view that the

project is making a reasonable contribution in developing a strong and effective credit union movement in Wales. There has been a healthy growth in both credit union membership and asset base in Wales as a direct result of project funding and the project is making good progress in achieving its WEFO-funded targets for the Convergence area. It is to be congratulated on its success in exceeding its most ambitious WEFO target of recruiting 7,500 financially excluded members – indeed 9,016 financially excluded adult members and a further 3,449 junior members have been recruited to date.

However, the performance of individual credit unions in meeting their SGEI-funded obligations varies significantly. Improvements to credit union governance and business operations have taken place but it remains the case that there is widespread variation across credit union performance in this respect. Generally, credit unions are still weak in terms of their financial structures (net loans to total assets), still maintain very high operating costs and continue

to hold more cash reserves than desired: the position with regard to bad debt provision has varied, however, with provision increasing in some credit unions and falling in others.

Our fieldwork revealed that some SGEI-funded credit unions have been able to make progress towards becoming self-sustaining organisations. But there is widespread recognition that, with Welsh Government funding expected to end in 2013, those credit unions which survive are likely to contract (in some cases quite considerably) while a small number of credit unions are likely to close.

We are of the view that the Welsh Government's contracted provider TSIB is largely delivering against its Key Performance Indicators and has effective processes in place to administer the SGEI funding agreements. However the evidence suggests that the support and training made available via TSIB is only having a marginal impact upon the majority of credit unions.

Recommendations

The evaluation makes seven recommendations, namely that:

Recommendation 1: The Welsh Government clarifies its priorities for credit unions and the provision of financial services to excluded individuals so as to reduce the current conflicting demands placed upon the sector.

Recommendation 2: In light of this (and subject to budgetary pressures) the Welsh Government commits to future on-going funding for the provision of financial services to excluded people and undertakes a scoping study to investigate whether in practice other relevant (i.e. Financial Services Authority (FSA) licensed) institutions might be prepared to tender to provide such services.

Recommendation 3: Should the Welsh Government commit to the development of a financially sustainable network of credit unions post-2013, then we are of the view that it ought to take a more ruthless approach to ensure better value for

money is obtained from the investment. In particular it should

- (i) review the performance to date of SGEI-funded credit unions;
- (ii) consider providing additional core funding (revenue and capital) to the targeted credit unions for a further three years but on a tapering down basis against credible business plans which show how sustainability can be achieved by 2016;
- (iii) remove requirements on these credit unions to target recruitment and growth efforts specifically at financially excluded individuals and agree targets for membership growth, asset growth and the percentage of turnover accounted for by earned income;
- and (iv) review support annually and withdraw funds from any credit unions which fail to deliver accordingly.

Recommendation 4: The project, through its contracted provider TSIB, continues to provide governance and compliance support to credit unions for the remaining period of the project, and that a greater focus be placed on supporting the recruitment of new credit union Board members and facilitating succession planning

within those credit unions who require such support and can see the value in receiving it.

Recommendation 5: Those credit unions which have achieved their contractual SGEI-funded targets be given greater flexibility by the Welsh Government to attract a wider membership base and increase their loan portfolio so as to increase their propensity to achieve long-term sustainability. These credit unions should also be encouraged to focus upon the retention of their current membership.

Recommendation 6: The project reconsiders its marketing provision in order to focus on raising people's understanding of credit unions and broaden its marketing to attract a wider membership base to the credit union movement in Wales. We also recommend that consideration be given to strengthening the common credit union brand for Wales.

Recommendation 7: The project provides support to the credit union sector to address its current key financial performance weaknesses,

particularly around bad debt and reducing operating costs. There is scope to further explore the sharing of resources and operating costs across supported credit unions.

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ISBN 978-0-7504-9201-0