The role of credit unions in promoting financial inclusion in rural communities in Britain

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Abstract

Before 1995, credit unions could not be established to serve rural communities in Britain. The Registry of Friendly Societies, the then Government regulator, interpreted the regulatory requirement for a credit union ‘common bond’, understood as network of social bonds and connections between members, in such a restrictive manner that it considered such social networks could not really exist among disparate rural settlements. Groups in rural communities campaigned for a more flexible interpretation and, by 1995, rural credit unions became both a possibility and reality. By 2001, it was estimated that there were at least 62 credit unions and another 22 active groups working to establish credit unions in areas defined by the then Countryside Agency as predominantly rural.

The growth in interest in the development of rural credit unions from the mid-90’s onwards was directly linked to a growing awareness of the number of rural households living in poverty or experiencing financial exclusion. This coincided with the closure of rural post offices and the increasing retreat of banks and accessible financial services from rural areas. In response, community organisations and local individuals came together to establish credit unions in market towns and within dispersed rural areas. Their aim was to create locally accessible, mutual and co-operative financial services, particularly for those who found it difficult to access mainstream financial providers.

The paper will include an analysis of the incidence and dynamics of poverty and financial exclusion in rural Britain. Unlike poverty in urban areas, rural poverty is often hidden and lost in statistical analyses as the rural poor often live side-by-side more prosperous neighbours. Yet recent 2008 research revealed that nearly one million families are still living below the poverty line in rural England alone. The percentage of rural poor is often even greater in rural Scotland and Wales. Rural poverty is exacerbated by the
dynamics of rural life characterised by poor public transport and lack of access to mainstream financial services. The paper will explore the interconnectedness between poverty and financial exclusion within the British rural context.

In 2001, research was undertaken into the initial development of rural credit unions in England (Jones 2001). This research explored the market and economic viability of rural credit unions and made a series of recommendations in regard to their management and organisation within a rural context. The aim of the research was to strengthen their potential for growth and economic sustainability given that many of the early rural credit unions were economically vulnerable and, despite local commitment and good intentions, were struggling to make a significant impact in rural communities.

The paper will explore the changing perceptions and understandings of rural credit union development since the publication of the 2001 report. It will analyse the impact of what came to be known as ‘new credit union development’ on the governance, management and performance of rural credit unions. This analysis will be based on current research being undertaken into the transformation of the wider British credit union movement by the Research Unit for Financial Inclusion in collaboration with the Association of British Credit Unions Ltd and with the support of The Co-operative Bank (Jones 2009). It will make some comparisons with rural credit union development in other parts of the world, particularly in Ireland and in Australia.

As with the report in 2001, the paper will re-examine the assumptions upon which current rural credit union development is based and investigate how credit unions can achieve their objective of becoming full service rural financial institutions with the capacity to serve rural communities effectively. The aim of the paper will be to identify and explore the major strategic issues that British rural credit unions currently face and are likely to encounter in the future. As such, the paper will aim to link academic research with recommendations for practical actions to strengthen the British rural credit union sector. A key theme will be the introduction of greater collaborative working among rural and urban credit unions in Britain.
