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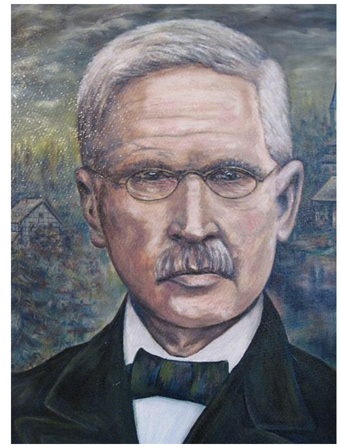

Friedrich Wilhelm Raiffeisen was neither a hero nor a revolutionary, but virtually every village or town in Austria has a Raiffeisen Square or Raiffeisen Street. A bridge across the Rhein is named in his honor, and there is a Raiffeisen museum in Weiherbusch. His name is associated with the organization he created to help others.

In the second half of the 19th century, amidst reforms and the collapse of the old regime, competition increased dramatically, and farmers were in severe need of the means to develop. No support was available from the government or private lenders, whose interest rates were extremely high due to the risks and operational expenses related to small-scale loans.

Friedrich Raiffeisen knew poverty first hand. He was born on March 30, 1818 in the German province of Westfalia in the small town of Hamm into the family of a local farmer (the seventh of nine children). The boy's godfather, a priest, helped him receive primary schooling in preparation for a military career. Early in 1842, however, he fell seriously ill, and his eyesight was impaired.

He abandoned his military career and took a job in the Koblenz city government. For his achievements, Friedrich Raiffeisen was appointed mayor of Weiherbusch and in 1845 married Emily Stork, the daughter of a Remagen pharmacist.

Like many other towns in Central Europe Weiherbusch lived in poverty. Farmers and craftsmen lacked means to live, and Raiffeisen understood their problems.

He was aware of the various Utopian theories prevalent at the time, but saw them as little more than wind and smoke. Raiffeisen's relatives and friends were among the victims of the poverty and suffering, and he sought ways to help them.

In 1847 Raiffeisen used his modest means and donations from the wealthy to create loan societies to help his impoverished compatriots. It soon became obvious, however, that an organization intended to support its members culd not succeed on the basis of charitable contributions alone.

Raiffeisen felt the organization should instead be based on the principle of mutual aid among its members, and this idea became the foundation of agricultural cooperatives: those in need must not rely on private donations or government support, but must help themselves and others by creating unions and cooperatives, which would also give them the opportunity to sell their products on more favorable terms and compete in the market. Raiffeisen founded the first credit union in 1846, providing banking services to members, helping people consolidate their savings, and granting loans to members on reasonable terms.

In 1872, in an attempt to reduce financial risks and improve the exchange of information, Raiffeisen united the local unions as a regional cooperative credit union. A central office was opened in 1877.

Two crossed horse heads became Raiffensen's emblem; people attached this symbol to the attics of their houses and believed it protected them from misfortune. When Raiffeisen died in 1888 there were 425 cooperative societies in Germany and about 120 in Austria founded by his efforts.

The system continued to develop, and in the 20th century Raiffeisen Group was founded, led by Raiffeisen Zentralbank Oesterreich. The group opened its first subsidiary banks in Central and Eastern Europe in the 1980s and is now a leading financial group in the region. Raiffeisenbank has been working in Russia since 1996.

Friedrich Raiffeisen would surely be amazed by the current scale of his noble undertakings. Raiffeisen was acutely aware of people's suffering, and he himself experienced many personal tragedies, including the death of two children, and his beloved wife in 1863. At the age of 47, he lost most of his eyesight, but continued managing his organizations with the help of his daughter Amalia, who became his personal secretary.

Friedrich Wilhelm Raiffeisen died on March 11, 1888 and was buried at the cemetery of Heddesdorf.

Raiffensen's Emblem

'S' formula:

Self-Help;

Self-Governance;

Self-Responsibility

F. W. Raiffeisen

2 Why Cooperatives fail as cooperative financial institution?

By Dr. Ranjith Hettiarachchi, Chief Exicetive Officer
Association of Asian Confederation of Credit Unions

It is important to understand why Credit Unions fail as co-operatives financial organization - why they cease being co-operatives. In addressing this, it is necessary to differentiate between economic and co-operative failure. This article is prepared in the occasion of year cooperative 2012 to have meaning full celebration.

Economic failure is when a co-operative fails as an ongoing and viable business - it is unable to compete, generate profits and survive as a business.

Co-operative failure is when a co-operative ceases to practice co-operative values and principles irrespective of its economic viability. The business may continue to operate and generate profits but its adherence to co-operative values and principles has become legalistic and token.

Of course, there is no such thing as a perfect co-operative - as there is no such thing as a perfect economy.

The ingredients of failure exist in all co-operatives and what matters is how co-operatives recognize this on an ongoing basis.

To identify the ingredients of failure, it is necessary to be clear about what is the nature of a co-operative. Obviously, to understand co-operative failure it is necessary to understand what is being failed - what constitutes the nature of a co-operative.

The starting point for co-operative failure lies in the formation decision and the formation process. The formation decision is when a decision is being made about whether or not to form a co-operative. The formation process is the process undertaken to form a co-operative.

Member Owned and Controlled

A co-operative is member owned and controlled. The members of the co-operative are the users and the beneficiaries of the co-operative.

It is critical that this fundamental characteristic of co-operatives is understood and accepted.

What, then, does this exactly mean? It means that each and every member actively uses and participates in the co-operative. This has two inter-related dimensions economic and political.

On the economic dimension, members must purchase and use the products and services of the co-operative. The nature of this purchasing and use will depend on the nature of the co-operative e.g. selling products to the co-operative, purchasing from a co-operative shop, purchasing energy through a co-operative's buying group, participating in the production and/or distribution of a newspaper.

On the political dimension, members must participate in the governance of the co-operative e.g. nominating for the board, voting for directors, attending general meetings, reading the co-operative's newsletter and responding to surveys.

A co-operative must begin and continue with an economically and politically active membership.

Inactive members are a threat to a co-operative because their inactivity demonstrates their lack of commitment to co-operative values and principles and this creates explicit and/or implicit contradictions and conflicts between active and inactive members.

Many countries co-operatives credit unions are governed by State legislation that requires active membership provisions. These provisions focus on economically active membership. Members may, therefore, be economically active but politically inactive. Co-operatives may also have a majority of users who are not members.

The greater the proportion of economic and/or political inactivity, the greater the risk to the survival of a co-operative as a co-operative. These risks can be characterized as follows:

•Economic activity Political activity

•Extreme risk Minimal or absent Minimal or absent

•High risk Medium activity High or medium

•Medium risk High Low or medium

•Minimal risk High

These risks are further aggravated by legal co-operatives with a significant number or majority of users who are not members.

These co-operatives are legally incorporated as co-operatives and the members may meet their economic and political activity obligations, but the majority of the users are not members. In these situations, there is a legal co-operative that is not observing co-operative values and principles.

A significant or majority of non-member users creates contradictions and conflicts not only between member users and non-member users but also challenges and choices for management about the competing needs of members and non-members.

These legal co-operatives are typically established and/or owned and controlled by individuals and/or organizations to provide services but over time the users either did or were not encouraged to become members and the co-operatives have persistently failed to address the issue.

Co-operative Governance

The extent and nature of the economic and political activity of a co-operative's members critically determines the governance of the co-operative and how this impacts on the co-operative remaining a co-operative.

The greater the proportion of economic and political activity, the greater the ooperativeness of the co-operative. The lesser the proportion of economic and political activity, the lesser the co-cooperativeness of the co-operative. The relevant indicative economic and political health indicators of a co-operative include as per the table:

Health Indicators Table

Indicators	Healthy Indicators	Unhealthy Indicators
User members	High to 100%	Below 75%
Non-user members	Nil	20% plus
Trade Turnover	80% plus members	20% plus non-members
Board elections	Contested	Not contested
Board attendance	100%	Below 90%
Member capital	High proportion	Low proportion
Consultation meetings	High attendance	Low attendance
Postal ballots	Over 85%	Below 85%
Member survey response	Over 85%	Below 85%
Board voting	High	Low
Director duration	Short-term	Long-term
AGM attendance	Quorum plus	No quorum
AGM debate	Encouraged	Discouraged
Web site	Yes and updated	No or static
Manager gender	Proportionate	Disproportionate
Director gender	Proportionate	Disproportionate
Staff co-op	Regular Ongoing	Irregular or absent
Director coop	Regular Ongoing	Irregular or absent
Members	Regular Ongoing	Irregular or absent
Newsletter	Yes	No or irregular

A system of governance must reflect and reinforce co-operation. A co-operative cannot assume its self-evident value to existing and new members and, therefore, the automatic loyalty of members.

Co-operatives must continuously earn the loyalty of their members and the nature and evolution of the co-operative's governance is critical to this development.

Co-operative Difference and Advantage

The key to the formation and the ongoing development and success of any co-operative is understanding, accepting and practicing the co-operative difference and advantage.

This is a recognition that there is a co-operative difference – that the structure of a co-operative is unique and different from private and public business enterprises. In accepting the co-operative difference, it logically follows that this difference creates a co-operative advantage. The Co-operative Difference and Advantage has five interdependent dimensions:

- A clear philosophy of co-operation
- A governance practice that reflects and reinforces co-operation
- A management practice that reflects and reinforces co-operation
- An ongoing co-operative renewal program
- An ongoing member education program
- An ongoing member participation program

A co-operative in its formation must establish the pre-conditions for ongoing adaptation and renewal as a co-operative. Co-operatives will invariably change due to internal and external processes, pressures and dynamics and critical to a capacity of a co-operative to cope with and survive change as a co-operative is the capacity to maintain its co-operative identity.

A Governance practice that reflects and reinforces co-operation.

The governance practice of co-operatives must be based on co-operative values and principles. What this means is the governance practice must reflect and reinforce, for example:

• Member control

• Active membership

• Co-operative education

• Co-operation between co-operatives

• An ongoing co-operative renewal program

As a co-operative moves from its formation there are challenges to its growth and success and new actors become involved in the co-operative's development – mixing co-operative and private values and interests.

Issues will increasingly arise about who is managing the co-operative, who is making what decisions and what is the nature of the co-operative's entrepreneurship. How, then, do co-operatives maintain their co-operative identity?

If co-operatives do not build-in the ingredients of continuous co-operation, then, they will in time not be readily distinguished by its own members, and others, from private enterprises. When there is a point that this distinction is not apparent co-operatives are ripe for de-mutualization. Once they are formed, co-operatives have two development options - maintaining and strengthening or weakening co-operative values and principles.

None of these developments are inevitable but it is at the point of formation that a co-operative can choose to strengthen or weaken co-operation. Of course, this is dependent on recognizing and understanding what strengthens or weakens co-operative values and principles.

A clear philosophy of co-operation

A co-operative does not exist in a vacuum and without an explicit philosophy of co-operation that provides a framework for the business activities , then, there will be implicit and divergent interpretations of the philosophical meaning and significance of the co-operative.

Unfortunately, co-operatives can under-estimate the values and principles and mistake its continuation as a business weakness. The International Co-operative Alliance's Statement on Co-operative Identity must inform co-operative practice.

A management practice that reflects and reinforces co-operation.

Co-operative boards appoint managers to manage co-operatives on behalf of the members. The board needs to be careful that it does not assume that it's role is to manage the co-operative and that the managers role is to manage the business.

This creates an unhealthy division that will not necessarily be noticeable in the short-term but will have long-term unintended consequences. There should be no separation between "co-operative" and "business". Instead, there is a need to recognize that co-operative managers need to integrate co-operative values within their management practice.

Without this integration, there will invariably be conflicts between "co-operative" and "business" success – potentially exacerbated by long-serving managers whose longevity could reinforce this separation.

An ongoing member education program.

A co-operative is owned by its members and ongoing member education is critical to ensuring member control. Member education is the continuous process by which members see the connection between their individual interest and group interest. The board is responsible for determining the direction and scope of member education and management is responsible for its implementation. Member education should not be ad hoc. It should be planned, budgeted for and followed through and include:

- Co-operative democracy and its practice
- History of the co-operative
- The co-operative identity
- Members' role and involvement
- The co-operative difference
- Co-operative management

With growth and age and increased complexity members find it increasingly difficult to judge its effectiveness and the activities of managers and directors. Co-operative education, therefore, increases in importance.

An ongoing member participation program.

The problem for a growing and long-established co-operative is the loss of power by members and the need, therefore, to have:

- Ongoing processes that limit the power of managers
- Continuing provision of available information
- Maintaining flexible and open dealings between members and managers

Organizational growth and change must be based on reinforcing the relationship between the needs of members and the co-operative's processes and activities. This is not automatically achieved. It will have to be striven for to remain achievable. There are three key ingredients for ongoing member involvement – information, training and consultation.

A co-operative cannot force its members to be involved. What it can do, however, is create the conditions for member involvement through involving structures, processes and practices. Members will become and remain involved if they have a sense of accomplishment, a sense of belonging, a feeling of control and the ability to satisfy personal ideas. The ongoing challenge for a co-operative, therefore, is to create and maintain these conditions.

Conclusion

Co-operatives, then, fail as co-operatives when they cease practicing co-operative values and principles. They may continue as a successful business - competitive, profitable and growing and open to demutualization. The ingredients of failure exist in all co-operatives. What matters, therefore, is whether the members, directors and managers take the opportunity to do something or nothing. A failure to act will mean that the ingredients of failure will become an increasingly significant factor in the future development of the co-operative.

Co-operative failure is not inevitable. It is, however, the inevitable outcome of the failure of a co-operative to recognize the importance of co-operative values and principles and making decisions that are incompatible with these values and principles:

A co-operative may choose, for instance, not to recruit as new members its non-member users yet allow the non-members to become an increasing proportion of users. This was an important element in what happened to the Victorian Producers Co-operative Co Ltd.

A co-operative may decide to raise capital through non-member shareholders and, therefore, create a conflict of interest between the member and non-member shareholders and could contribute towards co-operative demutualization.

A co-operative may decide not to provide ongoing co-operative education and training for its directors, members, managers and staff. Co-operative values and principles, therefore, are expected to be the product of osmosis.
A co-operative may market its products and services but its marketing does not identify the co-operative as a co-operative - denying that the co-operative difference is a marketing advantage.

The choices are there to be made for all co-operatives. It is a democratic and voluntary choice and decision.

2012 – The United Nations Year of Co-operatives:

Reflecting on what has been done and what needs to be done, the importance of financial co-operatives

By Ian MacPherson Emeritus Professor of History Co-Director
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There is much to celebrate. Nearly 200 years of sustained and continuous growth – in type, size and locations. Over one billion members. More than 300 different kinds of organisations, serving nearly every economic purpose from the cradle to the grave. Vital resources in hundreds of thousands of communities, fostering economic growth, the training of untold numbers of people, bringing individuals together in mutual help and inclusiveness through a distinct form of organisation. According to the United Nations, providing at least one important service to three billion people – about half the people on the globe today. Contributing to more peaceful societies in many ways, though this aspect of their contribution is often taken for granted.

Everyone in the international co-operative movement is indebted to Iain Macdonald, the recently retired Director-General of the International Co-operative Alliance, and to Ivano Barberini, the former ICA President, as well as to other ICA Board members, many national co-operative leaders, several national political leaders, and officials responsible for co-operatives within the UN and the International Labour Organisation, for securing this recognition of the contributions by co-operatives, past, present and future, to peoples around the world.

The Year of Co-operatives will be important because it will provide an opportunity to celebrate co-operative accomplishments.

Co-operators generally are not very good at such celebrations. Partly, I think, that is because the movement is always preoccupied with doing better (and therefore fixated on shortcomings, real or imagined); it is always facing pressures to develop new services; and it is primarily concerned with internal communications and not often with general audiences. Moreover, co-operatives are, for the most part, creatures of markets that primarily operate for the benefit of others and often do not even provide a level playing field. They typically involve people who are unaccustomed to being in dominant and prominent positions within society; their leaders frequently do not readily recognize the importance and potential of what they are doing.

Moreover, co-operatives are not commonly considered seriously in public debates over economic issues or within educational systems. They are rarely afforded the kind of attention their size would suggest they should have within discussions of public policy.

For all these reasons, the movement should seize the opportunity offered by the co-operative events of 2012 to improve at least partly on this situation by creating opportunities for sustained discussion about its accomplishments and its fundamental nature – discussions that could usefully be held both within and without the movement. It should be a time for celebration and reaffirmation.

The year will not be a success, however, if all that happens is the highlighting of past and present accomplishments, as important as that would be. It should also be a time for profound reflection on the co-operative experiences in its varied forms and in its remarkably different contexts around the world. The movement needs to reflect on what has made success possible. Equally, it needs to think about how its development has been inhibited or restricted either by external forces or by internal shortcomings. It should reflect on how the values and principles upon which co-operatives are based can be further and more broadly applied in the modern context, particularly amid the communication changes and ecological issues that are reshaping our world.

It needs to think more about how co-operatives develop within different economic and cultural circumstances. It must work on projecting a fuller understanding of what it is about –what co-operators of other times used to call the "big picture.

It should address the issue of how different kinds of co-operatives can prudently work more effectively together across barriers created by narrow institutional and cultural barriers. It should address more fully and practically how co-operatives can build their international linkages in order to become an even more significant and alternative player in a globalizing world, a kinder and gentler, more respectful, less arrogant, force in building a better world, economically and socially.

Although the pattern has been changing rapidly, the common face of the movement still tends to be tied to the North Atlantic countries, and though (of course) they are still an important part of the co-operative world, the celebrations during 2012 should also prominently highlight and consider the remarkable developments outside the North Atlantic as well. One of the main contributions this special year could and should make is to encourage more people (within and without the movement) to see and understand the amazing range of co-operative enterprise that exists around the world and to reflect upon the thought upon which they are based. It is an amazing opportunity.

I think that the Asian co-operative organisations, Asian movements, and Asian co-operators have a particularly wonderful opportunity; one might even say they have a special duty.

They face, however, what can only be considered as a particularly daunting task because of the enormity of what Asia represents. It is the world's largest geographic region, and it possesses far more people than any other. It includes incredible varieties of culture, language and economic circumstance. It is alive with numerous ideological and cultural traditions.

It is not surprising, therefore, that it possesses a very rich and diverse range of co-operative enterprise. Asian peoples, I believe, perceive co-operatives in many different ways. There are at least as many differences as similarities in the Asian movements – and we should celebrate that and try to understand more completely what those differences mean – and how they might be transcended.

Moreover, many of the largest movements in the world are located in Asia, another powerful reason why the Year of Co-operatives should have a strong Asian flavour. The growth over the last sixty years has been remarkable. The accomplishments of Asian co-operative leaders, the work done by people in this room and many outside it, needs to be understood and acknowledged. The commitment of many members to the strengthening of local organisations and the expansion of the co-operative idea has built the movement to its present state: they should be thanked, publically and often.

There is, of course, yet another reason: the rise of several Asian countries, so obvious today, means that what happens here over the next few decades will profoundly affect how the world develops; it will also significantly shape the co-operative world, just as the issues of industrializing Europe and the rise of the United States and Canada did from the middle of the nineteenth century to the later twentieth century. To give one little example: according to a recent article in The Economist, it is estimated that India alone will account for three out of every ten jobs created around the world for the next several years. The rapid growth of consumerism in many Asian countries is already a powerful economic, social, and political reality, a determining factor in the global shifts of our times. The growth of your cities is astounding, also one of the most obvious demographic facts in the world today. There already is significant engagement with co-operatives as Asian people adapt to these fundamental shifts in their societies. I think there should be even more.

In Asia, the transformation of rural life is taking place at an unprecedented rate, as powerful a set of changes as can be found anywhere around the world anywhere on the globe. The related growing importance of good food and expanding energy needs in a world with essentially finite resources raise immense challenges that co-operatives can partly meet – in Asia as elsewhere.

If, as social scientists project, our global population increases by fifty per cent to reach nine billions of people by 2050, how we manage our land base, our agricultural production, and our energy resources will determine our fate as a species. Which of the broad ways of managing this development would you prefer? Control in the hands of organisations primarily concerned with creating profits out of production for investors and managers, increasing government control, or the growing engagement of more community-based organisations such as co-operatives?

The pressure we feel now, the pressures that are accumulating in an increasingly more uncertain future are all classic circumstances for the development of co-operatives. Whenever faced by similar pressures during the last 200 years, people in many parts of the world have often been attracted to co-operatives: they can be very effective, they increase control people and communities have over their lives, they can meet so many kinds of needs, and they create new and resilient pools of capital and human power. All that has been needed is that people have the opportunity to learn about co-operative responses and the access to the resources to make them work – not easy, but not impossible either. Thus, while it is good to be a co-operator at any time or place, today it should be particularly exciting to be an Asian co-operator – you have the greatest possibility of shaping the future.

The Asian experience is particularly interesting to me because of what I understand of the history of your movements. You inherit traditions of family, community, ethics, values, religion, and philosophy that provide fertile grounds for co-operatives. Many Asian countries, however, first learned about formal co-operative organisations through the distorted eyes of imperialist regimes. Like much of Africa and Latin America, you have had to come to terms with that doubtful inheritance.

Many have had to learn how to adjust to the also distorted understandings that came from the Independence era, particularly around the forced development of staples and the accumulation of financial resources through heavy-handed government programmes that were not based on clear understandings of the distinct nature of co-operatives. And today, the Asian movements are expanding into new areas of activity that have been made possible by more open markets, improved communications, and vitalized entrepreneurship, especially at the community level.

There is a richness of experience in that past and present from which Asians and others can learn important lessons. There is much to be gained by reflecting on your own roots and from reflecting on your current circumstances.

At the same time, Asian co-operators are facing enormous challenges. While there is much wealth in Asia and more people are entering the middle class than ever before, some 900,000,000 Asians (about 15% of the world's population – it is too large to be just an Asian "problem") still live in poverty. In other words, across the region, there is an unequal distribution of wealth in which the spread from poor to rich is still widening, just as similar bursts of economic growth in the past in Asia and elsewhere have produced unsustainable and inexcusable income differentiations.

Sooner or later, extreme greed earns its appropriate reward in class struggles, political upheaval, youth revolts, and extremisms of various kinds. It is an old story, one that human beings seem to have great difficulty in learning. It is also a situation in which co-operatives can thrive and turn economic growth genuinely to the common good. At the same time, you are also facing some of the most difficult problems in the world because of the resurgence of ancient troubles dividing religious and political communities, the increasing crises associated with terrorism, and the seemingly unending disasters brought by climate change and natural calamities.

It is not simple to establish what are the responsibilities of co-operatives in such circumstances; all that is clear is that such calamities can have – often do have – sudden and disastrous impact on co-operative organisations and the communities they serve. It can also be true that co-operatives can significantly help in reducing some of the problems and tensions that arise. It is not easy to distinguish rice and other grains produced by farmers professing different religions; it doesn't matter what kinds of people deposit funds in a credit union – all that matters is that it is rewarded equitably and equally and that loans are made from them in an open, fair and transparent way.

By concentrating on their organisation's needs, by dealing openly and democratically with all the membership, and by admitting all who can use its services, leaders, staff, and members ensure that their co-operative contributes significantly to building mutual respect and solidarity within their communities. Nevertheless, whatever else: between the challenges and opportunities the New Asia presents to you, and the various tensions that are thrust upon you, there will not be many quiet times. There will be few easy days.

Such problems are far too complex to be laid entirely at the relatively small door of community-based co-operative financial organisations – the thrift and credit societies and the credit unions. And yet, such problems help define the common challenges and the needs within which they must function. They cannot be ignored.

And what is it that strikes an outsider looking at your movement? The following points are, I suspect, rather obvious, but I hope they will still help encourage some thought and, if time permits, some discussion. I look upon this session, to be frank, as a way in which I will learn more either here or afterward from you. In particular, I would like to address four points that I hope you can accept as important for you – and for the credit union world generally. They are: some of the complexities of building a movement that includes credit unions at different levels of development; the necessarily slow and steady ways in which credit unions develop; the need for a higher profile; and the value of more and deeper thought about credit unions and co-operativism

One of the arresting features of the Asian movement is the different levels at which your national movements are functioning. I found in one of Mr. Hettiarachchi's presentations on line his differentiation into the following categories: "new", developing, developed, and consolidating. I think he might be referring to what I have called in another paper I presented here this week, and in other papers and books I have written, as "formative", "stabilizing", "building", "rethinking", and "reformulating".

I think this dividing the development of credit unions is helpful in understanding some of the complex challenges that the Asian movement faces.

Each of the stages represents a different set of challenges, a different grouping of needs, a different set of relationships, particularly with members, within AACCU, and with governments. Managing those changing circumstance, particularly because they are constantly evolving, must be very complex.

The differences between credit unions that are "new" (or what I call "forming") and those that are "developed" or "consolidated" (or "building"- "rethinking" –"reformulating" in my way of thinking) are immense. New credit unions require extensive training for members, elected leaders and staff; they need enabling legislation but they must also have some external support because new credit unions have limited funds for all that needs to be done.

At the same time, they must be so organized as to have steadily increasing levels of independence and must move as quickly as possible to become fully independent. Their relationships with members must be close. They must learn quickly and effectively what is required to manage successful credit unions. They tend to have leaders who are capable of exciting and mobilizing people, who are in some ways "charismatic". They need the support of outside organisations and wise, understanding governments.

On the other hand, "developed" or "consolidated" credit unions are capable of operating as independent organisations, often including considerable independence within such organisations as AACCU. They are focused, often, on member economic benefit. They are increasingly driven by wealth creation activities for their members, a worthy goal.

Their connections with communities are more formal, less based on individual associations. They become protective of their own institution's interests. Their staffs are multi-faceted, increasingly including specialists, whose career goals may be tied as much, or more, to their professions as to their credit unions.

They tend to compare and measure themselves against non-cooperative competitors, which can affect the institutional cultures of the organisations – in fact, can easily lead to a declining commitment to the co-operative dimensions of the organisation that employs them. Their leaders are often of a different kind than those to be found in newer credit unions: less charismatic, much more concerned – and they have to be – with melding their team together and enhancing its capacity to operate increasingly complex organisations. Their credit unions are much more integrated within the market place.

Managing this diversity is as complex a job as one can have in the credit union world. On the one hand, the challenge is to do what is possible to help address the mammoth problems of poverty reduction in a practical and effective way through new credit unions: the temptation is to try to do too much. On the other hand, with well-established credit unions, the temptation may be to do too little – to be satisfied with only achieving increasing financial benefits for members. When that is all that happens, only part of the credit union promise has been met, an important part, but only a part nevertheless.

In the end, balancing the pressures and possibilities inherent in the work at the two ends of the credit union spectrum is a difficult art, a constant test of prudent action, common sense, wise governance, and careful administration. It is also dependent on keeping the good will of all involved and on the effective management and governance of local organisations, at whatever stage they find themselves. The days will frequently be long; most of the tasks never completely done; a few not possible to complete in a lifetime.

Secondly, I believe the work of forming new credit unions and credit union movements is slower that people might wish.

People in well-established credit unions tend to forget the complexities that accompanied the earlier days of their organisations, the myriad tasks that their pioneers, like today's pioneers, had to do, often at the same time. Governments, too, are often unrealistic in what they expect, while the public has imprecise understandings of the possibilities.

The wait, though, is worth the effort; possessing the diversity your regions does can be an asset in demonstrating the credit union possibilities. Like other kinds of co-operatives, credit unions create real and permanent wealth, wealth that is not manipulated on the stock market, that revolves within communities, that creates new and previously unharnessed sources of capital, that stays within communities, that has permanent and known ownership, management, and governance, and that empowers members. It is also wealth that remains far less untouched by rapid downturns, as the experience during the bursting of the "Asian bubble" some years ago showed, as does what has generally occurred during the current series of economic problems. Credit unions that remain driven by their core values are relatively immune in such situations; it is the few who try to stretch their engagement with the main stream financial structures that are most affected. The greatest risks are with the large credit unions not the small ones.

Credit unions have particular value in today's world, which has seen so vividly in recent years the consequences of too rapid growth, of too many manipulations by banking interests, and the impact of capital that roams irresponsibly around the world searching for easy profits. The slow, steady way in which credit unions develop can be frustrating – but it is also dependable and credit union leaders, governments and the public should reflect more on that fact – and tell more people about it.

Third – and this is connected partly to the slow, steady way credit unions tend to grow – they are seldom afforded the respect and influence they have earned. Despite good efforts by many well-intentioned people over the years, the movement still possesses a very low profile, especially in light of what it has accomplished.

I compare, for example, our work with that of the Grameen bank. The approach of Mr. Yunus and his associates, of course, was very high profile because it deliberately and effectively attracted very prominent people to its cause and relied on external funds to provide the resources for the local lending activities. It was originally a "top-down" approach, though it appears to be modifying its structures to make way for some increasing involvement in the direction of the organisation by local leaders. It has also been primarily concerned with making loans, rather than encouraging thrift, though again, I am told, they are changing that message somewhat today. Grameen deliberately and effectively garnered the interests of the media, fitted in fairly well with dominant notions of the market place, and made it possible for some from the elites to contribute to the bank's work.

Similarly, much is made of the work of the World Bank as it seeks to expand what appears to me to be conventional banking operations to more prosperous economic groups that do not receive sufficient services from conventional banks. There is much to commend this incremental, steadily widening approach to providing secure, reasonably prices financial services, but, like Grameen, it has its limitations.

I think that the approach still not widely enough grasped is that which credit unions provide by mobilizing people to form organisations that solidly build social as well as financial capital. I think this point can be demonstrated by the work that you do. I am impressed by the way in which AACCU is flexible in seeking to engage people in the development of credit unions: for example, the ways in which you have adapted some aspects of microfinance as it is practiced but doing so within the practices and philosophy of credit unionism; by your work in benchmarking; by the kinds of training programmes you foster; by your efforts in rural finance; and most of all by how you strive to co-ordinate the work of credit unions across the region – to create a voice for what you believe. I congratulate you on the adoption of the ACCESS programme.

What we all need to do better, in fact, is to communicate the credit union option more clearly and prominently. Doing so requires degrees of integration, consistency, and vigour we have not yet achieved on national, regional and international levels. The Year of Co-operatives presents an opportunity from my perspective because I believe what makes a credit union unique and important comes largely from its co-operative structure.

Fourth, we need to pay more attention to the ideas on which credit unions are based and how they are implemented. People are motivated by economic interests – that is true. They are also motivated and excited by the power of ideas. The history of the movement in this region – as well as everywhere else – demonstrates this fact abundantly. Today, many people are worried about the course of economic development, the need for more local and personal control, the challenges of the increasing shortage that will beset us all, and the search for ways to bring people together – the ways in which we can create a more peaceful, collaborative world.

Credit unions, like the co-operative movement more generally, has much to say about these issues, the most pressing of our times. To do so, though, we need to study more, and reflect upon, what we have done and what we are capable of doing.

We need to be as concerned about "why" as "how". We need to develop more analyses of what works but we need also to show more often, and with deeper thought, how much we have to contribute today. We should be more engineers than technicians, as much thinkers as doers. We should work harder at creating bodies of knowledge and at creating possibilities for deepening the discussions about how the world might better collaborate before our competitive instincts destroy us all. Nowhere is better suited for this kind of reflection than Asia.

This is not an academic appeal, though it is vital for the serious consideration of the co-operative model within the academy – including the study of credit unions.
One of the structural weaknesses of the movement has been – and is – the inadequate training of directors, staff, members and the general public in the essences of co-operative approaches. Co-operative movements generally rely on others to teach management, invariably organisations with teachers having limited understandings of the distinctive value base or organizational needs of our kinds of organisations. Our public education systems typically ignore co-operative thought and organisations. The public perception most commonly at best merely patronizes what we do. That situation will only be changed when we have worked harder at developing information bases characterized by deeper analysis, both quantitative and qualitative.

Finally, may I conclude (though I am a little premature), by wishing AACCU a happy 40th anniversary in 2011. You have a rich and colourful tradition. You have accomplished much under very diverse and often very difficult circumstances. May you long continue to do so. As they say in the lands of some of my ancestors,

"May the road rise to meet you. May the wind be always at your back. May the sun shine warm upon your face."

4 Enabling Regulatory Environment for Credit Unions in Developing Countries in Asia

By: Robby Tulus

INTRODUCTION

ACCU will mark its 40th Anniversary on April 28, 2011 - denoting a crucial milestone in its viable existence – and well on its road to becoming a strong and sustainable regional body for credit unions in Asia. Throughout its history we can witness the incremental yet consistent growth of ACCU from being a motivational agent of change, supporting and nurturing member credit union leagues and federations to gradually enhance their professional capabilities.

ACCU mirrors the stability seen in all its member organizations, and adds value to ensure credit union soundness and safety is not being compromised. It is quality over quantity; hence the current strategic direction being pursued by ACCU is that of Quality Assurance, which encompasses branding, relationship management, benchmarking, risk-based supervision, stabilization fund and the CREDIT UNION LAW. Indeed, the pursuit for quality is what differentiates ACCU from many other international organizations which advocate quantifiable growth for the sake of expediency.

This article will focus on Credit Union legislation, because assuring quality means that credit unions must also be supervised and regulated in an environment that is conducive as well as enabling. It follows that an enabling environment for credit unions must be created by the government and the movement in a spirit of cooperation and partnership.

This article will exemplify best regulatory practices in Korea which has enabled the credit union movement to grow so rapidly and yet with quality as its foundation.

The passage of the credit union Act in Korea and its ensuing amendments is something other credit union movements in Asia should be able to learn from and emulate with greater confidence.

However, the bumpy road towards creating an enabling environment for credit unions in developing countries in Asia cannot be overlooked, and it will also be analyzed briefly in this article. The favorable regulatory climate for credit unions in Korea, as well as in other developed countries in the West, will obviously bring to bear on the creation of more conducive credit union legislation in other developing countries in Asia.

CO-OPERATIVE AND CREDIT UNION LEGISLATION IN ASIA

The ongoing debate among credit union leaders in developing countries is whether or not credit unions should be legislated under the purview of the co-operative law or the banking act. As credit unions are also known as a savings and loan ‘co-operatives’, the argument is that they are an integral part of the co-operative movement, and hence should be regulated under the co-operative law.

However, others argue that since credit unions operate primarily within the financial sector, they should be supervised by financial regulators and legislated under the banking act. These are legitimate concerns and debates, but actually unnecessary if credit unions are duly regulated under its own ‘credit union law’. Having a separate Credit Union Law is certainly the most ideal and best solution.

Experience has shown, however, that co-operative laws and legislation in many developing countries in Asia are often not favorably disposed to credit unions as self-help organizations.

Most co-operative laws were historically designed and enacted from the top down by governments to enable them to intervene, and if necessary to control, the working of a co-operative in order to meet their national development agenda. Co-operative laws, especially in countries under colonial rule in Asia were first introduced by the colonial regime during the 19th Century, notably by the British. These laws were designed to allow governments to organize and regulate co-operatives as conduits for delivering services aimed at supporting its national development policies and programs. People-initiated and self-help co-operatives, notably credit unions, are thus inhibited to grow rapidly as an independent sector because importance is given to those government-supported and parastatal co-operatives.

Such a regulatory environment is still prevalent in many developing countries because of the dominant role of governments which deem co-operatives as strategic conduits to take delivery of government services for accelerating national development programs.

While governments do give fair recognition to credit unions because of their sound existence as independent and self-help organizations, yet special legislation for credit unions is not readily granted as easily as in the West.

Credit unions came into existence much later than the conventional types of (mostly government-sponsored) co-operatives, such as agricultural or multi-purpose co-operatives, and legislation were already put in place for the latter, and as such credit unions as latecomers are not perceived as vital an entity to the pursuit of government's broader objectives.

Co-operatives and credit unions in North America and Europe, including Australia, were initiated and developed by the private sector based on the needs of people/communities in order to countervail excessive business practices.

They were developed from the ground up based on peoples' needs, hence certainly not set up from the top down to become instruments of the state.

The government was primarily responding to the needs of these co-operatives, and thus legislation and regulations were set in place to ensure proper growth and development of these self-help organizations. Credit Union regulation in developed countries, in essence, was created to support credit union growth and development in either community or occupational common bonds. Since then, credit unions have been regulated in such a manner to maintain their true autonomy and independence, and thus able to grow and sustain themselves firmly within a competitive environment in the financial marketplace.

REGULATORY TRENDS IN DEVELOPED COUNTRIES

It is important to understand, however, that credit union legislation in Western industrialized countries did not happen overnight but have evolved over time. It developed incrementally by responding to prevailing socio-economic circumstances. In the U.S., for example, credit unions began to grow in the '40s and '50s. Only when it reached 10,000 primaries with individual membership of well over 6 million in 1970, did the federal government enact legislation to oversee their continued growth and development. It prompted the formation of the National Credit Union Administration, which then chartered and supervised federal credit unions. In 1977, legislation expanded the services to members to include share certificates and mortgage lending. Another milestone occurred in 1980s when the country faced rapid deregulation, increased flexibility in mergers, and changed membership criteria.

High interest rates and unemployment in the 1980s brought supervisory changes due to insurance losses, and the credit union movement called on Congress to approve a plan to recapitalize the Fund.

The Fund was recapitalized in 1985 by depositing 1 per cent of membership shares into the Share Insurance Fund, and backed by credit of the U.S. Government. During the 1990s and into the 21st Century, credit unions have been healthy and growing, even following the sub-prime economic downturn. Good supervision and conservative lending practices, coupled with favorable rates and a liquidity base that is comprised of member deposits, have made it possible for credit unions to weather the storm and maintain its strength and members' confidence.

Credit unions in Ontario, Canada, for example, are being regulated through a comprehensive regulatory framework which involves the Ministry of Finance, the Financial Services Commission of Ontario (FSCO) and the Deposit Insurance Corporation on Ontario (DICO).

To protect members and enhance public confidence in the credit union system, the Deposit Insurance Corporation of Ontario takes appropriate regulatory actions, with a commitment to transparency, accountability, fairness, and responsiveness.

In Australia, credit unions are subject to close supervision by the Australian Prudential Regulation Authority (APRA) under the Banking Act 1959. They are also subject to regulatory obligations under a range of laws, including Consumer credit Laws, Privacy Act 1988, Anti Money Laundering and Counter-Terrorism Financing Act 2006, Payment System regulation, the Electronic Funds Transfer Code of Conduct, and the Mutual Banking Code of Practice.

Credit Union Law in the U.S. was built on earlier existing legislation developed by Schulze-Delitzsch in Germany and Alphonse Desjardins in Canada. The Act has been amended periodically to evolve and remain a modern credit union law. To reduce regulatory burden, federal and state regulated credit unions could offer full-fledged financial services to meet the needs of members.

In all the above cases credit unions in the developed and industrialized countries are continuously responding to members' needs, and currently offering low cost transactions online via the internet or by telephone, just like any other professional financial institutions.
This was made possible because a favorable regulatory environment has been put in place so that credit unions can operate safely within the competitive marketplace.

THE EXEMPLARY CASE OF KOREA

The Korea Credit Union League (KCUL) was established in April 1964 by 63 credit unions as initial founding members. Eight years later, following intense negotiations and eventual support of the Minister of Finance, the Korea Credit Union Act was enacted by Parliament in August 1972. One year later, the Korea Credit Union League (KCUL) transformed itself to become the National Credit Union Federation of Korea (NACUFOK) to conform to the Credit Union Act.

Since the promulgation of the Act, the movement has developed rapidly and expansively throughout Korea, and to a large extent supported by the establishment of the Training Center in 1981. In the ensuing process, NACUFOK experimented with changing its organizational and service structure from a two-tier system into a three tier structure in 1988, i.e. with the establishment of provincial leagues. This experiment was deemed ineffective when total assets grew exponentially up to 15 Trillion Korean Won in 1996; hence the three tier structure was reorganized to its former state to become a two tier system once again in 1997. Since then, with prudential standards in place, and technological advances employed, the movement grew expansively with total assets of no less than 45 Trillion Korean Won (US$ 40.5 Billion) in the year 2010.

An amendment to the Credit Union Act was made in an effort to improve the governance structure of NACUFOK. The aim was to distribute basic rights to the Directors of the Business Operating Division and the Supervisory Divisions respectively, which rights used to be vested and concentrated on the Chairman alone. Since March 2004, NACUFOK and primary credit unions became subject to the Korea Housing Finance Corporation Act, allowing credit unions to offer long term mortgage loans. An organizational reshuffling was carried out from NACUFOK's offices to make 12 Regional Offices cooperate more closely with primary credit unions.

One of the hallmarks of sound legislation is to protect members' deposits during a severe economic downturn. NACUFOK has been successful in establishing such protection framework called the Credit Union Depositor Protection System in 1984 to guarantee that deposits of members up to KRW 50 Million, or approximately US$ 45,000, will not disappear and will be repaid should a sudden liquidity crunch or bankruptcy occur. The system is sheltered by an Enforcement Ordinance by which the Credit Union Act enforces compulsory insurance contributions from credit unions of only 0.3% of the credit union deposit liability of the previous year.

The total fund created is a staggering US$ 700 Million, and overseen by a Fund Committee composed of three appointees by the Minister of Finance, FSC and NACUFOK.

The above example of NACUFOK shows how sound legislation provides an enabling regulatory environment that could make a movement grow fast and strong, without compromising the quality of governance to maintain soundness and safety of credit unions

REGULATORY ENVIRONMENT IN DEVELOPING COUNTRIES IN ASIA

Unlike the exceptional case of Korea - and to a certain extent also in Taiwan, Hong Kong and Thailand where co-operatives and credit unions are by and large well regulated - the regulatory environment for co-operatives and credit unions in many developing countries in Asia leaves much to be desired.

Many governments still perceive co-operatives as a double-edged sword: one blade which represents a powerful organization which promotes peoples' welfare and development, and the other blade as an autonomous and independent organization which could undermine the government's role in exercising their political patronage.

Unlike in the West where governments essentially play supervisory and regulatory roles to ensure safety and soundness of co-operatives, governments in developing countries are more inclined to play a development (and in some cases organizational) role as well.

Credit unions, seen as independent and autonomous financial co-operatives compared to other co-operative sectors, are much less inclined to pursue such patronage inasmuch as their independence discouraged external dependency by receiving government loan funds or subsidies.

Government-sponsored co-operatives, on the other hand, are usually very keen to pursue and obtain such funds, realizing full well that by doing so they allow the government to perpetuate its political patronage. That is the reason why self-reliant co-operatives such as credit unions, which also happen to be latecomers, are continuously subjected to existing and sometimes obsolete regulations which are inhibitive unless they adhere to the certain policies or political agenda of the government in power.

Prof. Hans Munkner once stated that "Co-operative Acts are designed for co-operatives as a legal pattern of its own, not as a way to suit the needs of the co-operative society in terms of a people-centred, member/user-driven self-help organization, following the co-operative principles" (Munkner 1996). In other words, political expediency takes priority over sustainable co-operatives.

The Hindu group of publications went further and wrote: "Delving into the history of law making in the co-operative sector in India, it said that laws have been in force in the country from the early 20th century. The Acts formulated during British rule provided for considerable Government control, as was the case in respect of people's institutions those days and even until now" (Financial Daily, December 17, 2002).

Lately, governments in developing and emerging economies in Asia give high priority to the Millennium Development Goals. Strategies to achieve these goals are usually laced with credit packages that only weaken any resolve among target beneficiaries to form their own self-help co-operatives. The classic development strategy to help the poor is to form "overnight" co-operatives which are more disposed to absorbing cheap credit funds or highly subsidized inputs from government departments.

Political patronage continues to be exercised using apex co-operative organizations as conduits, as could be seen in countries such as Indonesia, Sri Lanka, India, Bangladesh, Nepal and in Indochina. With the exception of Singapore and the Philippines, government departments in charge of co-operatives are filled with large bureaucracies and manpower, and in some cases with resources that are decentralized all the way to the rural districts.

We have no doubt that "legislation" must be accepted as an important instrument in bringing about co-operative development for so long as it does not become 'a legal pattern of its own'. There must be proper checks and balances to ensure the sustainability of these co-operatives as member-based institutions.

There needs to be a gradual shift from a state-controlled environment that has sustained a "top-down model" for well over half a century, to a more member-driven as well as an enabling one. This shift cannot be accomplished by simply writing a good piece of legislation.

The process entails much more than a simple intellectual exercise. It must begin with a process of changing mindsets among government authorities and agencies, as well as among co-operative leaders and members alike. It means educating the government that a participatory approach is the best way to design a legislation, wherein co-operative leaders and members are also called in to participate in the process. It means educating co-operative leaders and members not to allow governments to dictate legislation which could jeopardize their own self-help efforts from the ground up.

For this mindset shift to happen, ongoing attempts have been made by the International Co-operative Alliance of Asia Pacific by bringing together ministers and government officials in charge of co-operatives, alongside co-operative leaders from within the region, for an intensive dialogue about co-operative legislative reforms. The most discernable impact has been the enactment of co-operative laws which closely conformed to the co-operative values and principles of 1995.

In most cases, however, government delegates continued to predominate in the ensuing debates, inasmuch as most co-operative leaders from developing countries attending these Ministers' Conferences were those ones representing apex organizations which are by and large receiving support from the government as well. The more difficult part is the fact that Co-operative Ministers are also constantly changing due to their elective status, leaving longstanding bureaucrats - who are less concerned about changing mindsets - to follow up on the resolutions and recommendations.

Credit union leaders attending the event, while representing the more autonomous and independent co-operatives, has yet to reach a level playing field in the midst of the larger delegation from agricultural or consumer sectors.

Notwithstanding, and until such changed mindset comes to pass, the regulatory environment for co-operatives continues to be fraught with political agendas, and hence the longer it takes for self-help co-operatives such as credit unions to acquire their own specific legislation.

PURSUIT FOR A SEPARATE CREDIT UNION LAW

As the case of Korea indicates, credit unions must be able to show their financial strength that is founded on independence and quality assurance, and be able to advocate such strength to the government.

It is essentially a lobbying effort aimed at convincing the government that credit unions could become a massive force in the national economy if only they are given the proper regulatory framework to expand its members' needs, such as housing and small scale businesses.

The case in Korea, and other developed countries, has shown that credit unions are allowed to provide long term mortgage lending to members, and allowed to participate in deposit guarantee funding as well. Housing and hard earned deposits befit members' needs and are not readily available for the economically weak communities if left to profit-oriented financial institutions alone.

If a separate credit union law could be granted and attained, these priority needs of members could be fulfilled more easily and speedily, realizing full well that the low income members are still wary about commercial banks, as well as other financial institutions, all of which they cannot control as they are merely small depositors and borrowers.

Notwithstanding, the pursuit for a separate credit union law in a developing country is not an easy task to undertake, albeit not impossible, as could be witnessed from the successful ones in more developed countries such as Korea, Taiwan and Hong Kong.

All it would need is just more gestation time, inasmuch as simple amendments to existing co-operative laws alone may take years to get passed by, or even debated in, parliament. The reason being that many, if not most, parliamentarians have limited knowledge or background in co-operatives, while government officials drafting the amendments are often not familiar with the values, principles, and day-to-day operations of co-operatives themselves.

Unless independent co-operative leaders and practitioners are actively involved in drafting the co-operative law, government officials and parliamentarians are not able to discern the best legal provisions needed to sustain a sound and safe co-operative, and more so when it comes to credit unions.

In fact, the situation is even more precarious for financial co-operatives and credit unions. The financial markets are so complex, and the upsurge of microfinance for the poorer segment in the society has drawn some savings and loan co-operatives to emulate microfinance institutions and undertake direct lending activities to the public (i.e. non-members) in order to harvest more revenues, without heed to the very basic membership principle.

Worst still, these faulty practices are being allowed and supported by certain government bureaucrats/regulators who perceive such practice as a profitable business endeavor. This is almost akin to legislating loan-shark activities, using the co-operative legal basis as mere instruments.

Under these circumstances it would still be best for credit unions in developing countries to carefully self-regulate by adhering strictly to their own by-laws, i.e. by-laws which are autonomously developed and authorized by members themselves, and authorized by the corresponding government ministry. The case of Indonesia is an interesting one because as soon as the government recognized the strength and viability of credit unions to help communities, and subsequently granted full registration under the co-operative law in 1999, the number of credit union membership and assets rose exponentially.

It is heartening to see that credit unions and their national leagues and federations, under the auspices of ACCU, are faithfully adhering to their nine credit union operating principles and are clearly not deviating from the co-operative values and principles.

ACCU has been vigilant and pro-active in ensuring that credit unions in Asia uphold their prudential standards, by embarking on ACCESS Branding to promote standards and best practices in Asian credit unions. Professionalization, Quality Assurance and well-tailored HRD/HRM as strategic directions of ACCU are all members-driven, and this sets credit unions apart from many other financial co-operatives in the region.

It would not be an exaggeration to say that credit unions in many Asian developing countries become the envy of many other government-led co-operatives.

Credit unions in developing countries have shown their resilience and are able to sustain themselves so well as self-help and self-reliant organizations, irrespective of current regulatory provisions which are still deemed insufficient. They have been able to flourish independently within the co-operative family in the developing countries in Asia.

The fact of the matter is that Credit unions are a-political and non-confrontational when dealing and interacting with respective government authorities in these countries, albeit assertive and sometimes aggressive. And ACCU as the umbrella organization for credit unions have chosen the right path of advocacy that is persuasive, appropriate, and done in the spirit of co-operation. Moreover, ACCU and member organizations do so more by walking the talk, i.e. by demonstrating their growth on the basis of autonomy, independence, and democratic people-based governance, and not merely by rhetoric.

CLOSING NOTE

It is hopeful that learning from the exemplary case of NACUFOK in Korea, and credit union movements in the U.S. and Canada, growth of credit unions in developing countries in Asia will reach a point when their impact on the financial market can no longer be undermined. This will prompt the corresponding government to regulate credit unions in such a manner to eventually make it a much more competitive and sustainable movement in the financial scenery nationally.

We should be optimistic that the regulatory environment will continue to be more enabling for credit unions. People are becoming cautious with banks because of so many scandals and moral hazards during the recent economic downturn. People are more confident to be part of a self-help organization which they own themselves, serve their needs, remain accountable to them and align perfectly with their best interests.

The potential for credit unions is huge, and the slow pace of legislative reforms should not deter leaders to slumber in a state of "reform fatigue", but instead to rejuvenate credit unions seek the best legal platform for their growth and sustainability by good lobbying and advocacy. We must remain vigilant and optimistic that credit union laws will come to pass sooner than later.

Last but not least, the celebratory event of ACCU in April 2011 will hopefully be the right momentum to spearhead a strategic drive for better dialogue with governments in Asia, especially among those from developing countries; by so doing ACCU plays a strategic and facilitative role to create stronger partnerships between governments and their corresponding credit union movements in bringing about the ideal regulatory provisions and environment, i.e. the Credit Union Law, so much needed by well-functioning credit unions in Asia.

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5 The Application of Incentive and Stabilization Funds

(In promoting credit unions in the rural area of China)

By: Andrew So

The mission of the Casa Ricci Social Services (CRSS), a Foundation registered in Macau, is: "To create a more harmonious society,helping the poor and marginalized communities in China achieve their sustainable social and economic well- being and self-sufficiency, empowering them individually and as a community to become masters of their own destinies and as such become a contributive force in the nation's integral development." CRSS projects can be classified in four major areas:

+ education for the poor,

+ physical and social rehabilitation for people affected by leprosy,

+ physical & social rehabilitation for people affected by HIV/AIDS,

+ physical and social rehabilitation for sex workers,

+ formation and training of CRSS's co-workers.

In 2007, Casa Ricci Social Services created a pilot project to promote community development in marginalized communities in China. Promoting credit unions which are member-control, member- own and are of self- help and mutual help was chosen as the piloted project and Ms. Teresa Tao is the project coordinator. Andrew So is a director of CRSS and a voluntary technician of the Community Development Team of CRSS. Apart from credit unions, the CRSS Community Development Team also promotes Basic Human Values and Community Mapping For Resource Management in the rural areas of China.

As of February 2013, CRSS has helped to organize 3 credit unions in Yunnan Province and one in Sichuan Province is in the pipe-line.

In the midst of so many credit co-operatives and micro-credits , big and small ,in China, CRSS's target has always been serving the poorest of the poor, helping them to pull themselves up by their own boot- straps. Education and training are regarded as one of the most important approaches. The credit unions that CRSS helps to form are confined to not more than 300 members and with assets of not exceeding RMB300,000.

An important hurdle to surmount is registration. While there are laws such as the "Professional Farmers' Co-operatives" and " Mutual Aid Fund" legislations, CRSS is looking and working for a piece of suitable legislation for small credit unions/co-operatives that are member-control, member-own, and are of mutual help and self-help.

In the absence of registration, for the time being, to protect these small credit unions formed, CRSS has set up two Funds to protect them, i.e. the Incentive Fund and the Stabilization Fund explanations of which are:

The Incentive Fund (策勵基金) of Casa Ricci Social Services

Casa Ricci started to promote and help organize credit unions in China in 2007 as a means to achieve its objectives. In the absence of a favorable legislation to register credit unions in China organized with the technical assistance from Casa Ricci , a Stabilization Fund was set up in January 2010. The Fund has gained the confidence of people taking part in the project.

With the objective of organizing at least one new credit union annually under the wings of Casa Ricci and based on the criteria laid down, i.e. membership not more than 300 and assets not to exceed RMB300,000 and having gained some positive experience over the last 5 years, we, members of the Community Development Team of Casa Ricci propose to set up another fund in the 2nd quarter of the year 2012 to be called the" Incentive Fund" to give a lift to new credit unions to be formed not as seed money but rather as incentive loans with the following features:

Initial amount: RMB100,000 to be kept in Macau

Loan amount: except for special cases, not more thanRMB50, should be given to each new CU

Repayment: to be repaid by 5 annual installments plus interest of 1 percent per annum. All repayments and interests thereof should be deposited in the Incentive Fund Account of Casa Ricci held in a bank in Macau.

Repayments of loans granted previously by Casa Ricci to CUs plus interests should likewise be deposited

Administered by: the Executive Director of Casa Ricci.

Another subsidiary function of the Incentive Fund is to assist credit unions in their application for registration under favorable legislation by giving loans based on the above features and terms to meet capital requirement of such legislation.

The Stabilization Fund (穩定金)of Casa Ricci Social Services

The Stabilization Fund set up by Casa Ricci Social Services (CRSS)is for the purpose of protecting credit unions that have not yet been registered and obtained any bonding service with the following terms:

(1) To provide an interest free loan of not more than RMB 100,000 to a credit union to avoid liquidation or to assist in matters on liquidation;

(2) To provide financial assistance to a credit union suffering from loss of properties due to natural disaster or in the course of its operation of not more than RMB30,000. Source : Initially, the amount of the Fund is HK$300,000 to be deposited in a bank in Macau. A participating credit union should set aside 5% of its net profit annually into the Fund.

When in force, the Fund may be increased to not more than HK$500,000. Once the amount of the Fund falls below HK$300,000, it should be replenished to HK$300,000 or above.

Qualification: The credit union must operate soundly in accordance with the Credit Union model bylaws provided by CRSS.

The number of members of the credit union should not exceed 300 and its assets should be below that of RMB300,000.

Management : The Fund is managed by the Community Development Team of CRSS. In considering the above

(1) application of the Fund, the Team must cause a complete audit of the books of the credit union and to make sure that its delinquent loan is less than 5 %; In considering the above

(2) , the Team must cause a complete audit of the books of the credit union to ascertain that loss is supported by concrete and proper evidence.

For the above (1) and (2) applications to be approved, the Team must secure a 2/3 votes of the Team Members.

In the promotion of credit unions in China, CRSS keeps close working relationship with ACCU, the Association for International Business Ethics in Hong Kong (AIBE), the Center for International Business Ethics in Beijing (CIBE), The Association of China Micro-finance and the China Credit Research Center of the Peking University, not in funding and financing but in education, training and information .

For example, in 2010, through the effort of CRSS and AIBE, ACCU and CIBE jointly translated into Chinese and published in China the manual on Microfinance Innovation for Credit Unions- for trainers and MFI Practitioners with the preface written by Director of the China Credit Research Center of the Peking University.

The manual also attached much interest from the Association of China Micro-financing. The Director of the State Council Leading Group Office of Poverty Alleviation and Development Center was the key-note speaker at the book launching of ceremony of the manual.

In 2012, the International year of Cooperatives, the Association of China Micro-financing has obtained policy approval to promote the credit union/cooperative concept in three Provinces in China and expressed interest in collaboration with the Education and Training efforts of CRSS.

6 The Prudential and Corporate Responsibilities of Credit Union Directors in Australia

By: Mark Worthington

Background

At the beginning of 2013 there are ninety-one credit unions in Australia with total aggregate assets of AUD$48 billion. In 1973 the number of credit unions peaked at 833. Credit union rationalisation during the 70s and 80s may be attributed to a changed policy emphasis that was designed to reduce the heavy demand that a large number of credit unions places upon association resources as well as regulatory resources.

More recently, in the five years to 2010, the majority of credit union mergers occurred as a result of friendly strategic agreement. Some mergers however, appear to have occurred as a result of regulatory encouragement. Four large (over $1bn) credit unions have recently converted to become mutual banks, further reducing credit union numbers.

The continuing pressure on credit union costs and profitability, combined with increasing regulatory and compliance accountability will likely realise further consolidation. By 2016 the number of credit unions is expected to be about sixty-five.

Until 1992 credit unions in Australia responded to state-based regulation. In the state of New South Wales there was a specific Credit Union Act which operated from 1969 to 1992 when it was replaced by uniform state-based legislation. In 1994 credit unions lost their tax exempt status and after a phasing in period, became subject to full company tax in 1997.

In 1999, the Financial Sector Reform Act facilitated the registration of credit unions as companies under the Corporations Act. This Act conferred prudential functions and powers to the Australian Prudential Regulation Authority (APRA) and corporate functions and powers to the Australian Securities and Investments Commission (ASIC).

Under Corporations Law, credit unions are no longer considered to be co-operatives. However, the corporate regulator ASIC has developed policy statements which define what once was considered to be a co-operative as a "company with a mutual structure".

Generally, ASIC's definition of a "mutual" is where a company meets an economic test (members have rights to receive an equal share of the surplus in a wind-up), and a governance test (which is effectively one member one vote).

APRA prudentially regulates all deposit-taking institutions, that is, banks, building societies, and credit unions, using a common supervisory framework that has been derived from the Basel banking supervision accords.

Hence, credit unions in Australia are "mutual companies" with both a corporate regulator and a prudential regulator.

Corporate Responsibilities

The Corporations Act sets out the laws dealing with all business entities. The Act also provides for penalties for contraventions of its provisions.

There are a number of provisions within the Act that are most relevant to credit union directors:

•S125 provides that the Board must observe restrictions to powers described by the credit union's Constitution. A constitution is essentially a membership agreement specifying how a credit union will be run. Where a Board intentionally contravenes a constitution rule, that Board will have breached the federally enacted Corporations law.

•S180 states that directors must exercise their powers and discharge their duties with the degree of care and diligence that a reasonable person would exercise if they held a similar responsible position. This section has been used by ASIC to apply penalties to directors who for example, approved an annual financial report that contained incorrect information.

•S180 also contains the "business judgement rule", where directors must make judgement in good faith, must not have a material personal interest, must inform themselves about the subject matter of the judgement to the extent they reasonably believe to be appropriate, and rationally believe the judgement is in the best interests of the corporation.

•S182 & S183 state that directors must not improperly use their position (or privileged information) to gain a personal advantage or to cause detriment to the organisation.

•S184 identifies intentional dishonesty as a criminal offence.

•S191 provides that a director must disclose any material personal interest in a matter relating to the affairs of the credit union.

An important recent development in Australian corporate law involves a re-statement of the responsibility for directors to understand financial statements. Justice Middleton reasoned, in what has become known as the Centro decision, that;

"A reading of the financial statements by the directors is not merely undertaken for the purposes of correcting typographical or grammatical errors or even immaterial errors of arithmetic. The reading of financial statements by a director is for a higher and more important purpose: to ensure, as far as possible and reasonable, that the information included therein is accurate. The scrutiny by the directors of the financial statements involves understanding their content."

It is clear that a certain standard of financial ability is an essential requirement for directors, and this has caused some concern that Boards may in future be populated only by accountants. The reality is that an intelligent and questioning mind with a basic understanding of accounting concepts will suffice.

Prudential Responsibilities

The Chairman of APRA has stated that Australia was under no legal, political or other obligation to adopt the Basel regulatory framework, and that it was implemented to make the Australian banking system safer and more efficient. In 2003, the World Council of Credit Unions noted that Australia was the only country where the national regulator required credit unions to comply with the Basel framework.

The Basel framework contains three pillars. Pillar 1 sets capital requirements for credit risk, operational risk, and market risk. Pillar 2 concerns the need for additional capital to cater for example, for identified credit concentration risk, interest rate risk, liquidity risk, strategic risk, contagion & reputation risk, and securitisation risk. Pillar 3 concerns the consistency of public financial reporting.

APRA has produced over twenty prudential standards with which regulated institutions must comply, and it is the Basel Pillar 1 definition of operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems…" that allows APRA to set prudential requirements for the governance of credit unions. The APRA standards that directly refer to this subject are CPS-520 Fit and Proper and CPS-510 Governance.

Consolidated Prudential Standard CPS-520 Fit and Proper

The standard states that: "Persons who are responsible for the management and oversight of a regulated institution need to have appropriate skills, experience and knowledge, and act with honesty and integrity." Fitness for the position refers to the requisite skills, experience and knowledge, and propriety for the position refers to honesty and integrity.

The effect of the prudential standard is that credit unions must apply a series of tests to all responsible persons, that is, both current and prospective directors, senior management and the external auditor.

The objective tests that assist in determining the propriety of directors are that Directors must not be disqualified by either APRA or ASIC from holding corporate positions, they must not be a current or former bankrupt, that claimed material qualifications must be verified, and a criminal history check must be obtained from the Australian Federal Police.

Being a bankrupt or falsely claiming a material qualification will immediately disqualify a person from being a director. Criminal convictions indicating dishonesty will similarly lead to immediate disqualification. There is however, an argument that a conviction for example relating to drink driving may not sufficiently affect propriety to preclude a person from being a director.

Bringing subjectivity to the assessment of a criminal history can create its own problems. It has been argued that multiple drink driving convictions would sufficiently affect propriety so as to preclude a person from being a director. The question then becomes how many, and over what period, would be deemed to affect propriety. In this situation a board would need to agree and have a strong rationale when determining whether a person is or is not proper.

Should the objective propriety tests be passed, directors must then submit to the fitness, or competency tests. These subjective tests are conducted to enquire as to whether a director;

•understands the role of a director,

•has the capacity to make an effective contribution to the Board,

•has the ability to read and understand financial statements,

•has capacity to undertake continuous professional development, and

•has an ability to evaluate, form conclusions and make good judgements.

Most Australian credit unions have created a specific committee, a Director Nominations Committee, to provide independent assessments of directors. In Select Credit Union's case, two independent experts that are appointed by the Board and one sitting board member form the committee. The committee usually meets only once each year to assess those persons who have been nominated for election as a director.

The Director Nominations Committee will use detailed knowledge-based questions to assess re-standing directors. Where directors have had one or more terms on the Board, the Committee will expect a high level of understanding of corporate and prudential responsibilities. In this situation, a full elected term is considered sufficient time for a director to have gained the requisite level of knowledge and skill. Hence, a re-standing director's failure to correctly answer general regulatory questions may lead to an assessment as not being fit for the position.

New nominees are not expected to have a thorough knowledge of regulatory issues however they are expected to display attributes and skills that suggest they will quickly understand their corporate and regulatory responsibilities.

The ultimate responsibility for ensuring the fitness and propriety of responsible persons rests with the Board of directors.

Consolidated Prudential Standard CPS-510 Governance

The Board of directors therefore, comprises persons assessed as being fit and proper who have been elected or appointed according to the credit union's constitution. It is the Board of directors that is ultimately and collectively responsible for the sound and prudent management of the credit union.

The Governance prudential standard sets out some minimum requirements for good governance.

•Credit unions must have a formal charter that sets out roles and responsibilities of the Board.

•Credit unions must have a minimum of five directors at all times.

•Credit Unions must have a majority of "independent" directors.

In assessing whether a director is independent, the Board must apply certain criteria. It is important to note that being assessed as not independent does not affect a person's capacity to act as a director. The prudential standard simply specifies that a majority of directors must be assessed as being independent.

The independence criteria are, that a director;

•has not been employed by the credit union in an executive capacity for the last three years,

•has not been a material advisor or consultant in the last three years,

•is not a material supplier or customer (or an officer representative of a supplier organisation), and

•does not have any material contractual relationship with the credit union.

•The Board Chair and Audit Committee Chair must be assessed as being "independent"

The Chair also cannot have been the CEO at any time over the previous three years.

•Credit unions must have an Audit Committee to assist the Board by providing objective non-executive reviews of financial reporting

•Credit unions must have an independent and adequately resourced internal audit function that evaluates the effectiveness of the financial and risk management frameworks

•Credit unions must have procedures for assessing the Board's performance as a whole, as well as the performance of individual directors, and

•Credit unions must have a policy on Board renewal

This relates to how the Board intends to renew itself in order to remain open to new ideas and independent thinking. Many credit union Boards have set maximum terms for directors of between ten and fifteen years in order to ensure that directors maintain their independence.

The prudential regulator's mission is "to ensure that, under all reasonable circumstances, financial promises made by institutions we supervise are met…" Responsible persons (directors and senior managers) must therefore be fit and proper, and they must understand and comply with both corporate laws and prudential standards.

About the Author:

Mark Worthington is the Chief Executive of Select Credit Union Ltd based in Sydney, Australia. He has held senior management positions in credit unions for the past 24 years, and holds Bachelor of Arts and Master of Business Administration degrees. Select Credit Union has 13,700 members, AUD$300m assets and has recently rebranded as "Select Mutual Banking".

Mark is a director of the computer services bureau TransAction Solutions. He has participated in credit union development as a technical advisor in Papua New Guinea, Fiji, Tonga, and Tuvalu. He has made presentations to the Oceania Confederation of Credit Union Leagues, the PNG Federation of Savings and Loans Societies, CUFA Development Education courses, the Abacus Convention, and ACCU Forums including the Regulators Conference. Mark is a Development Educator and Select Credit Union is a Supporter Member of ACCU.

7 Women and Empowerment in Credit Union: The CARD MRI Experience

By: Dr. Jamie Aristotle B. Alip &
Ms. Aprille Joyce Baldeo

Looking at women and poverty - the CARD MRI History

The Center for Agriculture and Rural Development Mutually Reinforcing Institutions, or CARD MRI, has ever since, placed women in the forefront of its very core existence and operations. CARD MRI started from a simple dream of establishing a bank, owned and managed by its poor clients – to say more, poor women clients.

It was the lingering euphoria of the 1986 People Power Revolution in the Philippines which ignited this dream of working further with the poor by providing small credits to landless rural women. At that time, the growing incidence of poverty particularly in the provinces of Laguna, Quezon, Oriental and Occidental Mindoro, Marinduque, Masbate, and the Bicol Region led us to think of ways on how we can help solve poverty.

With 15 equally passionate development practitioners aboard, I started the Center for Agriculture and Rural Development Incorporated (CARD Inc.), which is known to be CARD NGO. A training-focused community and livelihood assistance program for landless coconut workers, including women, marked the start of CARD Inc. or CARD NGO's operations in April 1988. In 1989, CARD Inc. pilot-tested solidarity group lending, modifying the Grameen Banking scheme to suit the context of the Philippines. Encouraged by the successful implementation of the model, we launched through CARD Inc. the Landless People's Development Fund (LPDF) as its flagship program in 1990.

The subsequent years were spent on refining the methodology, with the end view of achieving the twin goals of outreach and sustainability. In December 1995, the Board of Directors and management began discussing the transformation of CARD Inc. into a bank to obtain legal basis for mobilizing deposits from the public, with the end of view of being able to offer credit to poor, landless women who do not have the financial capacity that are normally required by the usual financial institutions.

From an NGO, CARD Inc. transformed itself into a bank, a feat that we take pride of as the first non-profit or non-government organization (NGO) in the Philippines to transform into a bank. All that has been a seemingly impossible joke to the world is now a reality – CARD Inc., a bank that is fully owned by its member clients – women.

Through the years, our institution grew in numbers and in strength, as we listened to the needs of our clients and members. From its mother institution, CARD now has eleven institutions mutually reinforcing each other, hence the name CARD Mutually Reinforcing Institutions or CARD MRI. Each institution's hard work marked the 1.9 million outreach of CARD MRI to date, putting us into a global light. CARD MRI is at the forefront of poverty alleviation in the country, using microfinance as its clever partner and championing women empowerment as it has always been the institution's primary mission.

Empowering women through microfinance

As CARD MRI grew, women empowerment has always been its priority. Having the ability to make strategic life choices, the access and claims to material, human and social resources, and ultimately a well-being that turns women and families into responsible citizens that will help build the nation are the mission of CARD MRI, using microfinance as its tool to help alleviate poverty and improve the lives of its women members and clients.

We, at CARD, view microfinance like a one-stop shop in a corner providing a broad range of financial services to low-income clients who are traditionally excluded from banking and other similar services. We believe in the paradigm of poverty being a vicious cycle – you do not know where it starts and where it ends. It keeps on going and passed on from generations to another.

CARD Microfinance is not just about money lending. It also intensively promotes the culture of savings. With CARD Bank in our league, the habit of savings is being taught continuously even up to the member's husbands and children. CARD members pay their weekly amortization with a compulsory savings amounting to PhP 50. CARD Bank members can also become stockholders once they have a minimum savings of PhP 2,000. Yes, an ordinary poor woman is now bank stockholder or part owner.

Many literatures and our several experiences indeed have shown us that the poor are vulnerable to inevitable risks such as sudden deaths and natural disasters. We, at CARD, realized this and have developed additional services to address and protect our members from these risks. We have established the CARD Mutual Benefit Association, or CARD MBA, which is our formal microinsurance provider. CARD also has microfinance loans that are integrated to microinsurance such that members pay only PhP 20 per week to get insurance.

Through CARD MBA, members only need this very small amount which grants them the security of a life insurance and retirement fund.

CARD NGO or CARD Bank members automatically become members of CARD MBA where they can proudly say that they are 100% owners of a company. The members even sit as Board of Trustees, just as well as with the other institutions. Their voices are heard and included in the decision-making.

Furthermore, CARD MRI reaches out to its members and clients in times of natural calamities and disasters through its CARD MRI Disaster Relief Assistance Program (CDRAP) where we conduct relief operations for our member's families affected by such unfortunate incidents.

As CARD keeps on growing in quantity, we never allow ourselves to be overwhelmed with numbers. With our clients nearing about two million, we opt to remain focused on the more important thing, and that is the quality of our clients and even more, their quality as capable individuals.

As a microfinance institution, we provide productive loans for our clients that help them improve their social and economic conditions. Indeed, these loans help them; but we also saw that our members do not only need financing. They needed more than that. Most of our members and clients normally want to engage in business activities but they do not know how to proceed with it. Aside from lack of capital, they also usually lack connection, expertise, trainings and competence to pursue their dreams.

It is our fulfilment to see our members' businesses succeed and flourish. It is even our deeper goal to ensure the sustainability and viability of their businesses. We enhance this with other services and programs that holistically address the social and economic needs of our women members and clients, thus fully empowering them:

Credit with Education: Aside from providing our women member and clients small capital through loans, we educate them to utilize their resources to their best advantage. We teach them basic accounting to learn about profitability and to know proper allocation for their loans.

Scholarships: Education is of prime importance for CARD MRI and we translate this into scholarships that we provide to our qualified women members. Through our several scholarship programs, we provide opportunity for our members to continue their high school and college education. Our scholarship programs do not only cater to our members, but also their children, who despite both their ages, limiting schedules and resources, are able to complete this basic human and social need.

Trainings and exposure programs: We train our member clients how they can develop and improve their products. We also give exposure programs and different workshops so that they can observe and learn how different products are being made. This gives them a chance to explore and create new products and even have fresh ideas for their businesses.

Character Building: We help build the capacities and character of our members through our series of learning modules and various trainings that are provided during center meetings. This guides them to be more equipped individuals and give them confidence and capacity to explore and enhance their entrepreneurial opportunities.

Discipline, security and partnership: We develop savings habit and credit discipline among our members and provide mechanisms of security for their life and health. Different partnerships are being ventured out to link our "Nanays" to various agencies for their welfare. This boosts their competence to go after different opportunities.

Networks and introduction of new technology: We connect our clients to cheaper suppliers of needed resources and introduce new technologies which could be of great help to them.

Marketing: We assist them in marketing their products and provide them access to local and international markets.

Health: We also prioritize the health of our members. We have a Microfinance and Health Protection (MaHP) Program that provides access to different health services to our members, such as community clinics, laboratory services, and free consultation to our partner doctors and clinics. We also have our own pharmacy, called BotiCARD, where members can buy medicines at discounted prices. In CARD MRI, we believe that a healthy individual is a productive citizen.

Access to national social insurance: CARD MRI also provides its members access to social insurance given by the national government, namely the Social Security System and the Philippine Health Insurance Corporation. We offer this to interested members who wish to voluntarily enrol themselves to these national social insurances.

CARD MRI continues to develop programs and services which could cater best to the needs of our socially and economically challenged women clients. We continuously adopt and innovate in order to have the best of every practice. In all these, we never forget to support and encourage our clients all throughout. We know that above all things, it is our support and encouragement that keeps them going.

Our commitment to continuously empower poor women

CARD MRI is deeply committed in improving the quality of the lives of socially and economically challenged women and their families towards nation building. We choose to focus particularly on women, because in every society, women struggle against gender norms that limit their resources and opportunities for improvement.

We strongly believe that women’s empowerment is a tremendous resource for social change and a prerequisite in the fight against global poverty. But most fundamentally, we work with women because they are important in their own right.

Everything CARD MRI has learned about fighting poverty tells us that the most profound changes arise when we work not only with the most disempowered, but with the people and structures around them that can support their struggle for a life with dignity.

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