

“Our Liquidity is Trust, Not Cash”: Credit Unions and the Rural Social Economy

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Abstract

Rural communities in Canada currently face significant challenges associated with restructuring. The purpose of this paper is to better understand the role that social economy organizations (SEOs) may play in rural revitalization. Specifically, we propose that credit unions (CUs) represent significant assets to the development process. Our study reviewed eight rural CUs in British Columbia and Alberta in order to examine their role in local reinvestment. Our findings indicate that CUs possess social economy characteristics that hold potential as both sources of competitive advantage and resources for rural local development. However, limitations in capacity and awareness of the social economy prevent this potential from being effectively and strategically engaged.

Keywords: credit union, local reinvestment, rural revitalization, social economy organizations

1.0 Introduction

Over the past few decades, the shift away from the traditional welfare state and towards neoliberal policies has had a profound effect on rural communities in Canada. Rural communities grappling with this restructuring face a number of challenges, including government withdrawal and a loss of local services. When combined with the added effects of economic restructuring, labour shedding due to advanced production techniques and industrial flexibility, it is clear that rural communities must find ways to bolster their economies if they are to flourish. Looking beyond traditional private and public sector solutions, the social economy may offer viable solutions to address gaps in rural areas affected by political and

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economic restructuring. Emphasizing the need for a place-based approach to building a resilient local economy from within, social economy solutions involve reorienting a community's focus toward finding value and strength in local attributes and resources, and stressing local capacity-building and reinvestment opportunities in order to decrease dependency on external resources and decision-makers.

The purpose of this paper is to explore the role that social economy organizations (SEOs) may play in revitalizing rural communities. Specifically we are interested in the activities of credit unions, since as both SEOs and local financial institutions, credit unions have a unique role to play in financing the very sector in which they operate. As part of their mandate, credit unions have a commitment to provide financial and other related services to their members; however, their work not only serves their members directly but also indirectly, insofar as depository funds are reinvested locally. This function is in contrast to conventional banks that often invest at a distance in order to maximize profits. In rural settings, access to financial services is often more limited, further enhancing the significance of rural-based credit unions, particularly with respect to the small enterprises and non-profit organizations. Given their mandate of member and community service and the related commitments related to *co-operative principles*, we propose that credit unions are a natural source of financial assistance for social enterprises and other organizations of the social economy that may provide valuable services to many individuals and communities not adequately served by the for-profit or public sectors. We explore this proposition through several case studies of rural communities in British Columbia (BC) and Alberta. Although the social economy is by no means an under-studied concept, to date there is very little research on the social economy in rural contexts, particularly in Canada (Neamtan & Downing, 2005; Reimer, 200; Teitelbaum & Reimer, 2002).

The project is part of a five-year research initiative, the BC-Alberta Social Economy Research Alliance (2006-2011). BALTA is the BC-Alberta node of the pan-Canadian research initiative known as the Canadian Social Economy Research Partnerships (CSERP), funded by the Social Sciences and Humanities Research Council of Canada (SSHRC). The alliance is a regional research collaboration of universities and community based organizations in Alberta and BC, Canada, with interests in the social economy. We hope that this paper contributes to a more thorough understanding of how the social economy operates in rural areas and the particular roles of credit unions within the sector.

The paper begins with a discussion of how the concept of the social economy is understood in the literature and leads into an examination of rural restructuring and the rural social economy. We then provide a brief history of the credit union, establishing these financial co-operatives as traditional bulwarks of marginalized communities and inferring that they are the natural foundation for rural social economies. Following an overview of project methods and design, our main discussion is divided into two sections. First, we outline a series of 'competitiveness attributes' that credit unions possess that make them well suited to rural environments and, as social economy institutions, make them invaluable to rural communities. Second, we present a series of strategic and operational barriers to advancing the social economy in rural areas based upon the experience of the rural credit unions.

2.0 The Social Economy in the Rural Context

In February of 2004, the term ‘social economy’ was officially recognized in Canada in the Speech from the Throne as “the myriad not-for-profit activities and enterprises that harness civic and entrepreneurial energies for community benefit right across Canada” (Governor General Adrienne Clarkson, 2004). Currently it is not possible to provide an exact financial portrait of the social economy in Canada, but there is ample evidence to suggest that this sector represents a significant and rapidly expanding part of Canada’s socio-economic infrastructure (Neamtan et al., 2005).

An extremely broad and complex term, the social economy is often thought of merely in terms of being outside either the for-profit or private sector and the public or governmental sector, functioning as the “third sector” (Kay, 2005; Restakis, 2006). This third sector encompasses numerous stakeholders, including associations, charities, foundations, trusts, mutuals, non-profits, and co-ops. Defourny and Develtere (1999; p. 3) succinctly capture the potential vastness of the term, summing up the social economy as “any economic phenomenon that has a social dimension, and any social phenomenon that has an economic dimension”. However, Lloyd (2007, p. 68) writes that within this third sector, only the “bodies that have an ambition to create a different sort of economy – one that has a different approach to the organisation of work and production and the distribution of surplus – constitute the formally defined social economy.”

According to Lukkarinen (2005), organizations and companies within the social economy are people-centred and needs-based and have significant job-generating potential, particularly for those who are disadvantaged by the labour market. Social economy organizations (SEOs) may also be able to effectively meet local needs that have not been met by the market or existing government programs (Lukkarinen, 2005). The critical element of SEOs that makes them unique is that they are intended to serve a social purpose, which is the primary reason for their existence. SEOs tend to be closely linked to the community in which they operate and often rely on volunteer labour or funding to function (Teitelbaum et al., 2002). SEOs either have no shares at all or they entail membership fees, as in the case of co-operatives (Quarter, 1992). Defourny et al. (2004) emphasize that the surplus generated by an SEO is used as a means to provide a particular service and is not the main motivation behind that SEO’s economic activities.

A sub-category within the broader social economy is ‘social enterprise’. The term social enterprise is a relatively new one, having emerged in the last fifteen years (Defourny & Nyssens, 2006). Because of its recent emergence, there is much discussion on how to define social enterprise. A thorough exploration of this debate by Defourny et al. (2006) reveals that there is significant variance in the meaning of the term, depending on the geographic context in which it is being used. For example in the United States, the term social enterprise is rather vague, referring to “market-oriented economic activities serving a social goal” (Defourny et al., 2006, p. 4). The definition therefore encompasses a wide range of organizations, including both for-profit businesses that are engaged in socially beneficial activities and non-profit organizations that provide a mission-supporting commercial activity (Defourny et al., 2006).

BALTA’s definition of the social economy includes those organizations that are animated by the principle of reciprocity for the pursuit of mutual economic or social goals, often through social control of capital. This definition would include

all co-operatives and credit unions, non-profit and volunteer organisations, charities and foundations, service associations, community enterprises, and social enterprises *that use market mechanisms to pursue explicit social objectives*. It would also include for-profit businesses, where those businesses share surpluses and benefits with members (and/or the wider community) in a collectively owned structure (e.g. a co-operative). In this definition it would not include those non-profit and voluntary organizations that are entirely grant or donation dependent.

2.1 Rural Restructuring & Community Economic Development

Globalization and the changing economy, driven by neoliberal values, have had profound effects on rural communities in Canada (Young & Matthews, 2007). With the values and traditional redistributive practices of the welfare state under increasing scrutiny, many governments have re-positioned themselves as partners in the provision of community services rather than as primary deliverers or funders of those services. As a result, there have been dramatic shifts in the responsibilities of the voluntary sector (Gray, Healy, & Crofts, 2003). This societal shift away from the traditional welfare state and towards an emphasis on market-driven mechanisms and business-based approaches for addressing social problems is one factor propelling the emergence of the social economy (Dart, 2004).

Rural restructuring in Canada assumes many forms, including labour decline associated with technological advancement in primary resource extraction, flexible production systems in manufacturing, and declining resource availability. This restructuring has resulted in comparatively higher rates of unemployment and the emigration of young people (Markey Halseth, & Manson, 2008). The impacts of decline ripple throughout rural communities, as lower population levels increases the relative cost of providing services, and a subsequent lack of services may then discourage businesses or people from moving to the community (Green, 2003; Halseth & Ryser, 2006). Indeed, the closure of businesses that provided services to the community can have significant social and economic consequences. A seven-year study of the availability of services in rural and small town places across Canada found that the local availability of all services tracked declined over time, including education services, health care, police and fire services, and government services (Halseth et al., 2006).

Faced with these challenges, many rural communities are searching for ways to revitalize or renew their economies. Community economic development (CED) is an approach being adopted by rural and urban communities alike (Roseland, 2005). CED emphasizes the need for communities to develop their own local solutions to economic problems; the importance of building long-term community self-reliance; and incorporating environmental and social considerations into economic plans and decision-making (Markey, Pierce, Vodden, & Roseland, 2005). The CED approach recommends that rural communities reorient away from a space-economy context and towards a place-based economy as a way to become more resilient. A place-based approach encourages communities to look beyond natural resource exploitation and instead to consider the unique attributes of their particular place in order to “generate their own solutions to their common economic problems” (Markey et al., 2008, p. 411). The ability to adapt these local assets for economic gain depends on local capacity as well as a constant source of investment to maintain these competitive advantages.

Within the CED approach, some see the social economy as a viable alternative to counteract the consequences of rural restructuring and the avariciousness of neo-liberalism (Hudson, 2009). Indeed, a more radical perspective “views the social economy movement as a transformative strategy, as a construction site for practical strategies, tools and institutions capable of challenging neo-liberal hegemony in the market and the state” (Lewis, 2007, p. 8). This underscores the importance of the social economy and its valuable role “in meeting local needs that are not yet satisfied effectively by the market or by existing public provision” (Lukkarinen, 2005, p. 420).

2.2 Credit Unions & the Rural Social Economy

Many researchers see encouraging the growth of the social economy and social economy organizations (SEOs) as a viable strategy for revitalizing local communities (Berkes & Davidson-Hunt, 2007; Gertler, 2004; Greffe, 2007). SEOs are not profit-oriented and therefore are able to look at both long-term and short-term prospects, “distill[ing] and disseminat[ing] values and processes that are intrinsic to local development” (Greffe, 2007, p. 96). Credit unions are important social economy organizations that operate in rural areas, providing crucial financial services. Credit unions, also known as co-operative banks, emerged from the co-operative movement that began in Europe in the 19th century, in an era characterized by rapid industrialization and urbanization taking place across Europe and North America. In BC, the provincial government has been encouraging the development of co-operatives since the 1890s in the agricultural sector, in order to enhance the quality of produce and reduce the price of farm supplies for farmers. BC farmers were well informed about co-operative movements in Europe and other parts of Canada and in the 1930s established the first co-operative marketing organizations in the Okanagan Valley and the Fraser Valley. Consumer co-operatives were also organized in the Kootenays and Vancouver Island, generally as a way to compete with chain stores and reduce the cost of goods. These consumer and marketing co-operatives provided great support for the establishment of the BC credit union movement (MacPherson, 1995).

When credit unions finally emerged in BC in the 1940s and 1950s they were very successful, since there was a real need for banking services for those who were poorly paid or underemployed and who were not being served by existing banking systems. Co-operative banks in British Columbia in the mid-1900s focused on the character and the reputation of each member, rather than on individual wealth (MacPherson, 1995).

In Alberta, farmers who were frustrated by the terms and conditions under which they were forced to sell their grain formed co-operatives in the early 1900s. First, farmers formed co-operatively owned country elevators and then started to pool their crops for sale through marketing co-operatives. Through this system farmers received higher prices for their products than if they had sold through the regular grain exchange. Aside from a few short-lived examples, there was no single pioneer who pushed forward the credit union movement in Alberta (Turner, 1984). Rather, the credit union idea “dribbled into the province a little bit at a time, taking root among tiny isolated groups gathered in kitchens, living rooms, and small meeting rooms” in the 1930s (Turner, 1984, p. 40). Alberta passed its Credit Union Act in 1938.

Today credit unions still have a mandate to lend to members, and they have become heavily involved with community economic development. Since CED “draws on the community’s needs and resources, the same way a credit union

does” (Fairbairn et al., 1997 p.11), credit unions are ideally suited to this role. Credit unions have a unique advantage when it comes to CED as they are able to operate beyond the traditional economic development role of financing, working to build community skills, capacity, and leadership, and even create jobs (Fairbairn et al., 1997; Heenan & McLaughlin, 2002).

Credit unions are particularly valuable to rural areas. Since it is part of their mandate to provide loans to those who have less access to credit and because investment decisions are based on the idea of strengthening community, credit unions are able to fill the credit gap experienced in many rural areas (Green, 2003). Furthermore, the success of the credit union is dependent upon the vitality of the community in which it is rooted and so economic surpluses are reinvested or redistributed back to the community (Fairbairn Ketilson, & Krebs, 1997). In documenting how four small towns in Australia were affected by the loss of a local bank branch, Ralston and Beal (1999) found that the number of business and home loans dropped and that the local economy of the town was affected as people stopped shopping locally and instead shopped where they banked. When a credit union was opened up in each of these towns, there was a dramatic improvement in community confidence and the majority of people in these towns felt that the credit union had improved employment opportunities, encouraged new business, and reduced the potential for crime in the community (ibid).

Brown (2001) remarks that the size of the community in which the credit union is situated will have a bearing on the kind of impact the credit union will have. In large urban areas, for example, large credit unions are in competition with other banks, so formal community relationships are likely to be more important. Small credit unions in urban areas will be more likely to have an impact on “very particular aspects of community involvement and to mobilize particular segments of the community (p. 50). Finally, credit unions located in small communities will likely have “high penetration and strong member loyalty” and will therefore be able to address broad-based community concerns (ibid, p. 50).

Fairbairn et al. (1997), in an extensive article on the roles of credit unions in CED, show that one of the most critical roles played by credit unions is their ability to help start up and expand local businesses. Since credit unions redistribute and reinvest surpluses and because they are committed to education and community vitality, they “embody community economic development and can act as powerful bulwarks of their host communities. Co-operatives and credit unions have a greater capacity to influence their community environment than do most businesses” (Fairbairn et al., 1997, p. 15). Zeuli (2001) finds that co-operatives build human capital through leadership development in rural communities – a prerequisite for local development efforts – for example, through providing skills development like business management, communications, or group problem-solving to those who serve on a co-operative board.

One area where credit unions can have a positive contribution to strengthening and supporting local economies falls under the broad concept of ‘community investment’. Community investment (CI) refers to “capital used to finance deep-seated needs of local communities that cannot ordinarily be addressed by traditional investment models” (Social Investment Organization, 2007, p. 16). CI usually supports low-income communities both in Canada and in developing countries, and is sometimes known as ‘cause-based’, ‘social impact’, or ‘alternative investing’ (Strandberg, 2004). The importance of CI is noted by

Strandberg (2004, p. 14) who writes, “Community investing can help turn around communities, create opportunities for the disenfranchised, support environmental regeneration and underwrite affordable housing for the poor.”

The Social Investment Organization (SIO), a Canadian non-profit that supports socially responsible investment (SRI) in Canada, distinguishes between several categories of CI in Canada: micro-credit to individuals; risk capital and loans for non-profits and co-ops; or high-risk loans or equity investments in locally-based businesses that meet community or social needs; lending for social or affordable housing; and local risk capital for development of small and medium-sized enterprises (Social Investment Organization, 2007). The SIO considers CI to be important “because it seeks to put local capital to use in local communities in support of development purposes for those communities” (Social Investment Organization, 2007, p. 16). The community investment sector in Canada is estimated to be quite small with about \$800 million in assets (SIO, 2007).

3.0 Research Design and Context

We implemented our research design in three phases. First, we began our exploration with a literature review on the social economy and, specifically, credit unions. Second, we conducted semi-structured interviews with twelve key informant leaders in the social economy and credit union sectors in order to gain a better understanding of credit union roles and social economy related programs. The perspectives of the informants helped us significantly in moving to our third phase in terms of identifying appropriate case studies. Finally, using the information provided in the interviews and combined with a scan of credit union web sites in BC and Alberta, we completed case studies of eight credit unions. The research emphasized the role of rural credit unions in supporting and promoting the social economy and also in facilitating economic development more generally across the rural region. Research with each credit union consisted of a review of annual reports, semi-structured interviews with the CEO and manager(s) of community programs/loans, and an interview with the manager of the Community Futures office in the region in order to gain an external perspective and overview of the rural regional economy.

Our selection of case sites was based upon a number of criteria: 1) rural characteristics of the credit union community, by virtue of population and non-adjacent distance from larger metropolitan centres. Descriptions and rationales for various definitions of “rural” exist elsewhere in the literature (e.g. Berkes et al., 2007; du Plessis, Beshiri, & Bollman, 2004; Markey et al., 2005). Our approach fits well with the du Plessis et al. (2004) concept of ‘degrees of rurality’, where a territorial unit can be assigned several measures of rurality. Other selection criteria included, 2) the presence of community-oriented programs identified on the host web site, and 3) an invitation by the credit union CEO to conduct research on their organization.

Given these factors, the populations of our case communities ranged from 6,000 to 17,000 (see Table 1 for a breakdown of town population and credit union characteristics). Overall, the credit union sector in both British Columbia and Alberta is significant. In Alberta there are approximately 46 credit unions with over 640,000 members, and \$17 billion in assets. In British Columbia the figures are larger: about 46 credit unions with more than 1.6 million members and assets of \$48 billion (Credit Union Central of Canada, 2010).

Table 1. *Case Credit Unions*

	Population*	Branches	Assets	Members
Case 1	13000	8	\$524 million	20000
Case 2	11000	3	\$169 million	11000
Case 3	17000	4	\$221 million	10000
Case 4	7000	1	\$154 million	5000
Case 5	16000	3	\$458 million	20000
Case 6	16000	3	\$158 million	12000
Case 7	7000	1	\$303 million	9000
Case 8	6000	7	\$163 million	7000

* town population refers to main branch location and is based on 2006 Canada Census data

4.0 The Role of Credit Unions in Rural Economies

In this study we use credit unions as representatives of the social economy to investigate how the social economy can contribute to the revitalization of rural communities. As we have outlined above, a CED approach can help rural communities to rebuild and strengthen their local economies, oriented towards a place-based approach to development that emphasizes social and environmental aspects of development, including the social economy. Credit unions are in a unique position in that they both operate within the social economy and have the means and the mandate to make meaningful financial contributions to strengthen the sector. In the following sections, we review select opportunities and barriers that exist for rural credit unions as institutional representatives of the social economy. Our research reveals that credit unions possess a number of ‘competitive attributes’ that make them valuable to rural communities, helping to counteract the negative impacts associated with restructuring. These attributes, which include community rootedness, the ability to make locally appropriate decisions, and the ability to provide services tailored to non-profit organizations and marginalized communities, represent operating dynamics that may apply to the rural social economy as a whole. In addition, a significant potential advantage posed by rural social economy actors is their ability to re-invest in the local and regional economy.

4.1 Place-based Economic Competitiveness

As place-based organizations operating within the social economy, credit unions are aware of the unique advantage they have in supporting their local communities. However instead of exploiting this competitive advantage, credit unions seem encumbered by the pressure to compete with banks. A common theme among informants in the course of our research was that credit unions feel compelled to pursue a more traditional business model in order to effectively compete with banks. Such competition is weighed in favour of the banks because of their sheer size as compared to most credit unions, making it difficult for credit unions to offer competitive financial products and services. One response to this challenge has been for credit unions to merge or simply to work together with other credit unions in a region to offer broader, shared services.

In general, credit unions are aware of the limitations they face in competing with banks. Indeed, this seemed to be a common sentiment among the informants interviewed in the course of this research: although credit unions find it difficult to compete with banks in offering financial services, informants stressed that they are able to offer a different type of value to their customers, which they can use to compete with banks. This value encompasses strong community roots and an awareness of local issues, which informants report gives them the ability to personalize financial services, stepping outside the typical boundaries to tailor financial products to individual customers and offer services to marginalized groups and non-profit organizations.

Community-Rootedness

Credit unions differ quite dramatically in structure and mission from banks. Being member-owned, democratic, locally-based financial institutions that adhere to a distinct set of regulations in each province in Canada, credit unions operate in a small and well-defined geographic area. Despite notable exceptions to this last point – there are several large credit unions in Canada that have a broad service area, though never extending past provincial boundaries – the majority of credit unions in Canada are set up to serve a particular rural area, town, or city, including with branches attuned to particular ethnic neighbourhoods. As such, rootedness in community and a strong community identity are characteristics that were identified by informants from our case credit unions as being not only significant to the informants themselves but to credit union customers.

Community rootedness is a product of the structure of the credit union itself. As member-owned co-operatives, credit unions adhere to the seven co-operative principles as set out by the International Co-operative Alliance as well as the governance principles of the World Council of Credit Unions. Together these principles, which include voluntary and open membership, democratic member control, autonomy and independence, and concern for community are what largely separate credit unions from traditional financial institutions. Anyone is welcome to join a credit union, and all members have decision-making power.

In general, informants saw their credit unions as being in-touch with the needs of their community, a characteristic which they believe sets them apart from the banks. According to one informant, the average person may be unaware of these co-op principles, but may still perceive credit unions to be community-based, an attribute that informants believe could give the credit union a competitive advantage over banks and other financial institutions:

When we are out at community events with our credit union shirts on, people can make that connection between the credit union and the community. However, people don't really understand us but we don't say enough about ourselves. We need to beat our own drum more. I think people generally care about the same things as credit unions and if they were more aware of what we stood for there's no way they wouldn't bank with us. —Credit union representative

It is clear from our interviewees that ‘community rootedness’ is a characteristic that credit unions can leverage to their advantage in competing with other financial institutions.

Local Decision-Making

Credit unions’ community rootedness is manifested in several ways. In terms of community involvement and investment, several informants pointed out that credit unions are able to make their own internal decisions about the kinds of community events, initiatives, charities, and activities they wish to support. On the other hand, banks make these kinds of decisions at the head office level with the result being that sponsorships and donations may not be responding to specific community needs. Banks, which also make claims about their community investments, have a different vision of how to do this and are more inclined to invest in large national charities, events, and festivals, whereas credit unions are likely to support similar activities, but at the local level.

The ability to make decisions that respond to local needs, combined with the community rootedness characteristic of credit unions, was seen by interviewees to be a competitive advantage, particularly in an era of economic uncertainty and at a time when there may be a general weariness about the trustworthiness of traditional financial institutions. This apprehension may result in a surge of interest in more locally based economies, in which credit unions can play an important role as they have already established strong roots in their local communities. Like banks, credit unions also strive to make a consistent profit, but this aspect of their operations is tempered by the aforementioned strong commitment to their members and to the communities in which they are situated, an inherent aspect of being a co-operative. According to one informant, credit unions should be able to pursue both an economic and a social mission, provided the two missions are balanced. As one interviewee stated, “Being a co-op is making a good balance between community and profits. For example, even in a time of trouble, you don’t lay off people to cut costs.” Interviewees clarified that although making profit is important and credit unions must consider the bottom-line, an important consideration is how to balance community investment with profit-making.

Services for Marginalized Communities and Non-Profit Organisations

The ability to offer personalized service and tailor financial services to meet individual customers’ needs were two competitive attributes also mentioned by various informants in the course of the research. One informant discussed how staff at his credit union regularly meets with individuals to give financial advice, an example of the kind of service that he believes has earned his credit union a reputation for its integrity and credibility. He noted that while banks require loan applicants to fit into a pre-defined profile, credit unions are able to be more flexible since credit union staff have the time to get to know customers well and can often find solutions to individual financial needs. In discussing loans, one interviewee reported that although there are standard criteria to be met, staff are often able to step beyond the usual boundaries because of the solid relationships his credit union has been able to build with customers. It was noted that credit unions are not often able to offer better loan terms or a cheaper interest rate, but do have the ability to offer loans when other financial institutions will not.

Credit unions also have the opportunity to invest in local non-profit organizations. Non-profit organisations tend to work in areas not served by the public and private sectors, such as advocating for marginalized communities. In rural and small-town

communities, where local non-profit organisations have a smaller population from which to draw on for financial support, credit unions have the opportunity to lend financial support to these organisations. Such financial support may go a long way to strengthening local economies in general, which in turn strengthens the membership base of credit unions. This type of alternative investment has the potential to make real change in communities, especially those struggling economically. In addition to giving grants, one case study credit union is supporting non-profits and social enterprises through providing long-term financial advice, organizational development, and general sectoral support. This credit union is an example of the type of alternative financing and support that credit unions are able to provide; yet, our research shows that most of the credit unions have largely ignored this opportunity.

Select rural credit unions in our study have also carved a niche for themselves in offering financial services to those with less access to credit, including loans that banks might consider too risky. One informant pointed out that his small credit union is able to support almost anyone who comes in because unlike banks and other financial institutions that are accountable to policies of a head office, credit unions are able to make their own decisions independently. It was mentioned by one informant that Aboriginal communities may be better served by his credit union because it offers better service than banks: “There are three or more reserves nearby. We do not have any particular activity directed to them. However, we probably serve them more than the banks; it’s not our strategy, just better banking hours” (Credit union representative).

4.2 Community (Re)Investment

Social economy policies and programs within credit unions are closely aligned with their corporate social responsibility (CSR) functions. The definitional obscurity (or emergent qualities) of the social economy presents both opportunities and barriers in terms of linking with the more widely recognized field of CSR. On the positive side, CSR may serve as a gateway – both organizationally and conceptually – to introduce the social economy more broadly within the credit union sector. Negatively, however, interviewees noted concern that CSR may be a barrier to social economy development, as the conventional CSR activities of credit unions – while serving very positive community and marketing roles – are not structurally relevant to elevating the strength and awareness of the social economy. If the social economy is confused with these “CSR- lite” activities, the broader transformative potential of the social economy is overlooked.

A 2007 Credit Union Central of Canada report found that credit unions participated in community development in a variety of ways. They donated over \$3 million in financial services to community organizations in the form of waived service charges, increased interest rates on deposits, preferred borrowing rates, free cheques, and office services. This survey also found credit unions spent a total of \$34.7 million in donations, services, scholarships, and volunteerism in 2006, which equates to an average of \$96,046 per credit union (Credit Union Central, 2007).

Our research shows that rural credit unions are investing a certain amount of annual profits into local organizations and events, but in only a cursory way and are not engaging in the kinds of investments in the social economy that could potentially bring about structural changes in the economies of local communities. Rather, credit unions in our study overwhelmingly tend to focus more on making

charitable donations and sponsorships, for example, funding scholarships for high school students; sponsoring community events like golf tournaments and community breakfasts; and donating to youth sports and local charities. Some credit unions also run financial literacy programs for adults and youth. While supporting these kinds of community initiatives is certainly worthwhile, we characterize them as ‘traditional investments’ since they do not make a meaningful contribution to strengthening the social economy of local communities in long-term, structural ways.

Several interviewees raised the idea that credit unions could play a role in bringing about societal change through, for example, reducing poverty, building community, and supporting youth. Informants from some of the case study credit unions mentioned the importance of CSR in helping credit unions to better engage with communities. However, according to one informant there is a general lack of understanding of how to affect social change and engaging in community events is a simple and obvious way for credit unions to invest.

There are several reasons why credit unions are hampered from both representing and making truly meaningful and strategic contributions to growing the local social economy. In the following section, we present how rural credit unions face several barriers to advancing the social economy, including a variety of reasons that contribute to a lack of awareness among credit union staff and management as to what the social economy is and how to contribute to it, and a lack of measurement tools (e.g., social audit) for gauging the success of community-related investments.

4.3 Barriers to Social Economy Impact

Awareness of the social economy is obviously a critical starting place for determining the level of engagement of credit unions with the social economy and social enterprise. Since being mentioned in the Speech from the Throne in 2004, where the social economy sector received a jolt of mainstream recognition, interviewees noted that broader public and government engagement with the sector has waned. This affects credit union involvement in two ways: first, as responsive agents to the marketplace, and particularly as member-driven organizations, credit union direction is heavily influenced by consumer/member interest; and second, as social economy entities themselves (in principle) credit unions are, theoretically, central players in representing and showcasing the social economy itself. The inherent tension within these two roles – responsive agents and proactive institutions – emerged in our interviews.

As institutional entities (i.e., substantial and systemic structures), credit unions are uniquely placed within the social economy, a sector that is more often associated with smaller entities despite the presence of a number of larger co-operatives. Even though credit unions are social economy organizations (i.e., co-ops), linking this co-operative reality with the broader principles of the social economy is not part of the mainstream culture within the credit union sector. Our interviewees offered a number of thoughts to explain this apparent contradiction. We will start with presenting factors internal to credit unions and follow with the influence of the social economy sector as a whole.

First, credit union staff knowledge of the social economy is low. There is a recursive relationship here with general public awareness of the social economy. However, limited staff awareness is also a function of credit union practices.

There is high-level comfort around supporting community events; but unless you have people involved that understand the full continuum of roles that CUs could play and how social change is motivated and mobilized – it will not happen. —Credit union representative

Interviewees noted that the internal reward system within credit unions is not oriented towards social economy objectives, but is driven by more traditional financial performance variables, by attention to what members seek from the credit union in services and by concern for employee needs. Another factor mentioned was that staff recruiting – and then subsequent and ongoing staff training – does not pay adequate attention to social economy content.

Second, a number of interviewees noted that there is a danger that the social economy is becoming a point of competitive differentiation between credit unions, rather than an issue of collaborative potential. Positive competition may play a key role in facilitating innovation and social economy program expansion; however, in negative terms if credit unions avoid social economy roles in order to be different from competitors, then the sector loses. The Enterprising Non-profit Program (ENP), jointly funded by different credit unions, is an example of positive competition (and collaboration). ENP provides grants to non-profits to directly assist with the start-up of a social enterprise. Despite the odd example of broader collaboration, interviewees were concerned that opportunities may be lost without constructive dialogue among credit unions about how to engage with the social economy as a sector.

It is problematic for us (and for our respondents) to comment meaningfully on the social economy as a collective or cohesive sector, given that much of the social economy is grounded in the contextual nuances of specific communities. Nevertheless, interviewees provided insightful comments on the role of the social economy sector itself in promoting or inhibiting its own development. First, interviewees noted that in many instances, the language of the social economy may be alienating to the mainstream (including credit union personnel) and, in particular, mainstream business practices.

There is a business capacity issue in the co-operative sector. The people involved carry a hippy persona and have not brought business ethos. There is also a general lack of understanding about co-ops among the public. They seem to have a negative image and are not viewed as mainstream. —Co-operative sector representative

We don't know how to evaluate this animal. We set a basic module for evaluating business models and the social economy is not included in this. We don't know what to look for and don't understand the social economy business model and organization. There is a need for more training. —Co-operative sector representative

Third, interviewees noted that the social economy sector could be doing a better job of communications. There are clear challenges here in terms of resources available to spread the word; however, respondents wanted more examples of successful performance and commented specifically on how the co-op sector, for example, needs to do a better job of sharing and communicating the co-op model. Awareness of the co-op sector (even within co-operatives and members who may belong to a co-op) was stated as being very low. The social economy sector needs to be doing a better job at communicating its benefits, illustrating how it can be a value-added contribution to organizations and to the economy, rather than something that is going to “cost” and drain valuable and limited resources. One interviewee attributed this perception to the unrealistic expectations that are placed on emergent social economy actors/enterprises. The pressure to achieve short-term benefits and realize short-term financial viability may crush what are potentially viable organizations.

Risk was a common subject raised several times in the course of the interviews, although not from all credit unions. For our case study credit unions, ‘risk’ includes both taking a distinct political position on contentious issues as well as making non-traditional investments, such as in the social economy. For example, informants were concerned about the potential adverse effects that taking a stand on issues may have, including alienating members. One informant pointed out that there is no method of evaluating the risk involved with engaging in social economy initiatives. “Optics matter. From a corporate perspective, a risk management perspective has to be adopted in terms of supporting different initiatives. Looking through a risk management lens, are you going to take a position on homelessness?” (Credit union sector representative).

In offering their comments and critiques, interviewees were aware of the many good works and programs offered and supported by the credit union sector overall. However, there is a clear sense from the interviews that there are both organizational and structural barriers that are preventing the social economy from reaching a critical tipping-point of awareness and action that is capable of creating a more inclusive economy.

Several informants discussed all of the above barriers but went on to suggest that this reluctance to move away from traditional investment may be due in part to a lack of knowledge about what the social economy is and how investing in it may benefit the larger community and the credit union itself. Although there is some evidence to show the value of a strong social economy, data on how the social economy contributes to a stronger economy overall is generally scarce (for example, see Elson & Hall, 2010). Because of a lack of specific data on what aspects of the social economy are successful, it is understandable that credit unions may perceive investment in the social economy as a risky venture. Informants noted that these are risks that credit unions are unfamiliar with and do not know how to handle.

Finally, despite the efforts of select credit unions, performance metrics and measurements (where they are being used) do not incorporate social economy criteria. If social economy variables are not part of the information feedback system within credit unions, then it will continue to be programmatically marginalized. In no instances were case study credit unions tracking or measuring the impacts of their community investments, donations, scholarships, or programs, except to measure membership growth.

Performing a social audit is one technique used to measure the impact of CSR-related activities. Generally, social auditing is seen to serve three purposes. First, it allows organizations to evaluate their performance in relation to their social commitments and goals. Second, social auditing helps organizations to respond to changing expectations in the business environment, for example allowing them to demonstrate their commitment to social responsibility. Lastly, social accounting “can help the financial bottom line of an organization by positioning it favourably in the marketplace” (Brown, 2001, p. 52).

MacLean and MacKinnon (2000) propose several reasons as to why a co-operative might opt not to begin or complete a social audit. These reasons include lack of management support, lack of staff to promote and support the process if initiated by the Board, lack of experience within the organization, the fact that the process is labour intensive and therefore might face resistance by the manager to the extra work and cost involved (p. 143). Additional potential barriers to auditing include fear of creating unrealistic expectations (particularly for smaller co-operatives and credit unions) and problems of data collection (in terms of availability or knowledge of how to generate reliably) (MacLean et al., 2000).

Although social auditing may not capture the drawbacks associated with engaging in various investments or initiatives, it may be able to help credit unions define what kinds of risks they can assume as well as illustrate the limitations of traditional forms of community investments. One informant proposed that in the absence of measurement tools, credit unions might become mired in more traditional investments. Although there is nothing wrong with traditional investments, these types of investments may not necessarily lead to the societal changes to which credit unions are ostensibly capable of contributing, by virtue of their co-operative principles and scale. Despite a strong argument for undertaking social auditing being proposed in this paper, one informant from a small-town credit union proposed that social auditing may not be as critical for smaller communities because impacts of investments are more clearly visible. Measurement may still be necessary in rural and small towns, but perhaps using a tool that is less complex than comprehensive social auditing.

‘Community’ is a real phenomenon here. You see results faster in the community here in a small town. The impact of investments is easier to see so measurement of these investments is less formal. —Credit union representative.

5.0 Conclusion

Although credit unions have a distinct history from banks and are founded on different values and principles, these qualities are generally not expressing themselves fully in terms of offering tangible and measurable facilitation of the social economy. Credit unions certainly have the mandate and the resources available to be able to finance the social economy more effectively than banks, based on community rootedness characteristics, the democratic nature of credit unions, and the fact that credit unions themselves are a part of the social economy. But can credit unions overcome the strong compulsion to compete with banks on traditional grounds, which may detract from the overall credit union mission and mandate?

Informants from all case study credit unions discussed how their credit unions are firmly rooted in the communities they serve and that they are familiar with local issues and struggles. Yet most credit unions have not taken advantage of their understanding of community in order to make strategic investments that would build the foundations of a social economy and more directly align with credit union principles. The credit unions in our study are making meaningful investments in traditional areas such as sponsorships of local festivals or sports teams, but there is a widespread lack of broader strategic, structural visions or plans associated with building the social economy. An underlying cause for this lack of structural vision is our finding that many credit unions do not recognize the importance of the ‘social economy’ and their role within it. In particular, the lack of staff education around what the social economy is and how it contributes to local economic development is a significant finding. More awareness of the importance of the social economy is critical for the strengthening of the sector and the organizations within it. In addition, further research about the social economy’s role in economic development will be a critical contribution.

Our interviewees suggest that most credit unions are struggling to find a niche for themselves, recognizing that they are unable to compete with banks solely on financial services, while being constrained by members who may not recognize the value of supporting environmental initiatives or less mainstream traditional investments that could lead to both a strengthening of the local economy and the credit union itself. Many informants in the course of the research reported that despite many distinctive attributes that set them apart from banks, credit unions have strayed from their mission and are more strictly focused on profit-making. Those credit unions that have tried to position themselves to compete with banks are now trapped in the market and do not see that they could have a different position in the economy altogether.

In facing the challenge posed by restructuring in rural communities, credit unions have the potential to play a critical role in helping to strengthen rural community economies by building on existing strengths and local capacity. In order to be successful and meaningful in their communities, credit unions must compete on the basis of financial products, while also looking for ways to support people, local organisations, and their communities as a whole. Interviewees stressed that the social economy may provide a balanced way (i.e., appealing to both enterprise and social dimensions) to pursue competitive advantages that are still rooted in the principles and practices of the credit union ideal.

6.0 References

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