INSTITUTIONALISING FUTURE GEOGRAPHIES OF FINANCIAL INCLUSION: NATIONAL LEGITIMACY VERSUS LOCAL AUTONOMY IN THE BRITISH CREDIT UNION MOVEMENT

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In Great Britain, financial withdrawal and community economic decline have focused attention on the capacity of locally "alternative" financial institutions to combat social and financial exclusion. This paper examines one such institution, the residential or "community" credit union, which provides a low-cost source of credit for members drawn from a common bond area usually based upon place of residence and/or work. Although community credit unions have traditionally been seen as providing individuals and communities with the opportunity to access credit and savings facilities in areas where there has been contraction in bank and building society provision (the financial "mainstream"), ongoing attempts exist to move away from the traditional role of community credit unions. This transition has set up three main challenges for the British credit union movement, discussed in this paper as follows: (1) a struggle over the attempt to redefine the "model" credit union within the national credit union movement; (2) the changing regulatory context for credit union development, including attempts to embrace credit unions within New Labour policies on social exclusion; and (3) a "local" challenge, including the incorporation of credit unions into community economic development initiatives. The paper considers how these challenges feed into wider understandings about the social relations, categorisation and autonomy of locally "alternative" financial institutions. We argue that future research on geographies of financial inclusion focusing on "alternative" institutions and their relationship to the financial mainstream needs to pay close critical attention to potential contradictions and tensions operating at the different spatial scales

Introduction

When compared to longstanding concerns of economic geographers in landscapes of production, geographical research on financial institutions is of a relatively recent vintage (Martin 1999). The fairly young nature of this body of research is reflected in a sustained debate around the manner in which to describe or categorise the myriad institutions that comprise any financial services "industry". Various terms have been used, often interchangeably in representing similar types of institution, and differences between various institutions have often been cast in a binary fashion. These have been based around their formality (formal/informal), aspects of their regulation (regulated/unregulated), their visibility (high-street-based/network based), their motivations (economic outlook/social outlook) and their position within the economy (mainstream/nonmainstream), amongst others. For instance, banks and building societies are variously described as mainstream, formal, regulated, high-street-based, with a largely economic outlook, and are often set against a range of forms that apparently display the opposite characteristics (see, for example, Ford and Rowlingson 1994, 1996; Leyshon 1994; UK Social Investment Forum 1998). **[Au: no UK Social Investment Forum in references. Please provide full citation.]**

More recently, however, attention has focused on the supposed "alternative" nature of a number of these forms.[1] This focus can be linked to a growing interest in the wider role of money in the space economy, especially in relation to the manner in which money serves as "a store of value, a means of exchange or even a 'commodity'…[and as] a *social* relation" (Martin 1999:11). **[Au: emphasis in original, or yours?]** In turn, this has encouraged research on the social relations and geographical contexts of *local* financial institutions and monies, including those that are presumed to exist and operate with some level of autonomy from the mainstream/formal/high-street-based financial sector. Here it has been suggested that "local monies…represent highly diverse, and possibly temporary, alternative ways of organising local economies and communities" (Lee 1999:223).

The possibilities for financial and social empowerment resulting from membership in such "alternative" financial forms is exciting, especially in the face of the unyielding and heartless nature of global capital. In this paper, however, we problematise the nature of the “alternative” in the current British financial services context. Similar to the binary oppositions noted above, there is often the implication that these forms are alternative to, and distinct from, institutions seen as more formal and/or mainstream—that is, that they are peripheral in some sense to a somewhat taken-for granted, nonalternative “core” made up, essentially, of the main banks and building societies. We argue that such binary categorisations and typologies may in fact be misleading rather than insightful, as well as increasingly unsupportable in a Third-Way Britain in which the distinctions between “alternative” and otherwise are becoming increasingly blurred. **[Au: later in the paper you punctuate this term slightly differently – “Third Way”. Which would you prefer? Also, will your readers be familiar with the term?]**

Following Roger Lee’s work on local monies (see in particular Lee 1996, 1999), we have become interested in the capacity of community credit unions to develop into locally autonomous and sustainable alternatives to the financial mainstream. Community credit unions are financial co-operatives that are owned and operated by their members, who are usually drawn from a common bond area defined by place of residence and/or work.[2] We have been examining local capacities for credit union development in selected localities, the absorption of local credit unions into community economic development (CED) initiatives, and trends within the wider credit union movement as these increasingly affect local development trajectories (Fuller and Jonas 1999a, b).[3] In this paper, we focus on the growing interrelationships between the local and national contexts of credit union development. We aim to highlight the manner in which the role, identity and philosophy of British credit union development is currently being appropriated by the state (albeit with the help of certain key players from within the credit union movement) and given legitimacy through social exclusion policy. This appropriation has a number of important implications for the future development trends and trajectories of British credit unions and their role in carving out “spaces of hope” (see Harvey 2000) amidst the “landscapes of poverty and despair” that have been created through the spatially uneven workings of global finance. **[Au: if second quoted phrase is also from Harvey, need pp; if not, need citation and pp.]**

In Britain, credit unions have traditionally served as a convenient, low-cost way of providing savings and loans to individual members (Fuller 1998b; McArthur, McGregor and Stewart 1993; National Consumer Council 1994). At a time when banks and building societies are restructuring and withdrawing from many localities (Leyshon and Thrift 1997), credit unions—particularly community credit unions—potentially offer a more stable financial and institutional presence for people in those localities, especially for those on low incomes. As Illsley and Jackson (1999:158) argue, “Over the past two decades, as poverty has grown and become spatially more focused in particular localities, the likelihood of residents from such areas gaining access to affordable financial services has declined, as banks and building societies have been modernised and rationalised”. This is not to suggest that credit unions offer the *only* financial alternatives in these areas, or that the only reason for their development is to replace dwindling mainstream representation (Ford and Rowlingson 1996). Rather, along with other “local monies” like Local Exchange Trading Systems (LETS), credit unions are recognised to be increasingly vital to the economic stability of localities and communities otherwise adversely affected by economic restructuring and financial withdrawal (Conaty and Mayo 1997; Fitchew 1998).

This role has been given added significance by the Labour Government, which now views support for credit union development as central to its policies on social and financial exclusion (Her Majesty’s Government 1999; Her Majesty’s Treasury 1998a, b, 1999a, b, c; Social Exclusion Unit 1998). As with other features of Third Way politics under New Labour

(Giddens 1998), the aim is not to challenge the hegemonic position of global finance within the wider British economy but to encourage these alternative financial institutions to develop alongside the mainstream economy. Recognising the growing interest on the part of New Labour in what credit unions are or should be, representatives of the wider credit union movement have called for credit unions to adopt a "new direction" (Her Majesty's Treasury 1999c:9). The question that interests us here is the extent to which the increasing political legitimacy of credit unions in Britain compromises their role as "stand-alone" providers of credit to individuals in particular localities. **[Au: are scare quotes needed?]**

Evidently, one of the principle attractions of community credit unions is that they *potentially* offer individuals and communities real alternatives to the mainstream financial sector in those localities. In this respect, credit union development has tended to follow CED models that are strongly influenced by concepts of social capital and community empowerment rather than by mainstream theories of local economic development. These models emphasise "restructuring for community" rather than "restructuring for capital" (Haughton 1999a). **[Au: need pp. for quotes.]** Traditionally, therefore, credit unions have been encouraged to develop independently from the financial mainstream, drawing upon associations, networks and capacities available within localities and often supported by local authorities (see, eg, Illsley and Jackson 1999). However, we suggest that the main thrust of change within the wider credit union movement seems to be in the opposite direction, towards increased links with mainstream financial institutions and a more commercial orientation based around a "top-down" national model rather than "bottom-up" or community-based models. **[Au: are scare quotes needed?]** Competing and potentially noncompatible models of credit union development are implied in recent debates within the movement, in the ways in which the movement has sought to shape legislative debates on financial reform and, increasingly, in terms of how policymakers have envisioned the wider social role of credit unions. We argue, therefore, that locally autonomous development is likely to become increasingly difficult to realise within the British credit union movement as it is currently evolving.

We structure our argument around what we see as three main challenges facing the credit union movement. First, we focus on an emerging tension between proponents of what is now seen as the "old" community credit union model versus those who argue for a "new" and more "commercialised" (yet at the same time socially inclusive) alternative "national" model. **[Au: are scare quotes needed?]** Second, we examine the credit union movement's attempts to influence the national policy and regulatory landscape, most notably through the activities of the Credit Union Taskforce, and the progress being made on the reform of British credit union legislation, possibly "the most restrictive credit union legislation in the world" (Fitchew 1998:1). Third, we briefly consider how these factors intersect with what we have termed the "local challenge" facing credit union development: that is, the connections and linkages (or lack of them) between idealised visions of community credit unions, the roles they are expected to perform and the harsh realities of development at a local level. In the concluding section, we discuss how all of these challenges highlight a number of issues that will be of concern both within and outside the movement in the coming years.

Changes and Challenges I: Transforming the "Old" Credit Union Model

Within the British credit union movement, the notions of what a credit union is and who it is for represent increasingly contested concepts. In historical terms, a range of philosophical and ideological perspectives on these issues have been most clearly reflected through the main national credit union organisations and their proponents, the National Federation of Credit Unions (NFCU) and the Association of British Credit Unions Limited (ABCUL) (Berthoud and Hinton 1989). The NFCU has recently gone into voluntary liquidation; some former members are currently in the process of establishing an alternative organisation, likely to represent similar values to those of the NFCU. **[Au: this sentence reads somewhat parenthetically; would it work for you as an endnote?]** These organisations are actively involved in national debates about the future of credit unions in Britain and their role in countering social and financial exclusion.

The traditional perception of the community credit union is that of "the poor person's bank". In supporting this view, credit union development has been encouraged by many local authorities in Britain and espoused as a panacea for "community" development. Community credit unions, in particular, have been adopted as core features of local antipoverty initiatives. They have been seen, and in many policymaking circles continue to be seen, as serving primarily the financial needs of impoverished communities (eg, "sink estates" in the larger cities), but beyond this their contribution to broader societal goals has been viewed as limited at best (Barnekov and Jabber-Bey 1993; Illsley and Jackson 1999; McArthur, McGregor and Stewart 1993; but see West 1999).

Indeed, the extent to which they have actually demonstrated these claims in practice is perhaps even more limited (Fuller 1998b, 2000a). Recently this perception has been reinforced by research that has identified an apparent inability on the part of some community credit unions to generate the revenue necessary to make a fundamental impact on the financial circumstances of those living (or working) within their predefined common bond areas (Jones 1998b). It is now being argued by some groups within the credit union movement that, as a consequence of trying to fulfil their community role, many credit unions are experiencing difficulties in developing into locally sustainable alternative sources of credit and finance for all potential members within these areas (Jones 1998b). At the same time, although many recognise that there is considerable potential for the further development of the credit union movement in Britain and for broadening credit unions' social and geographical bases, there is also uncertainty as to what form this development will take.[4] This has created a space for arguments in favour of transforming the "old" credit union development model into a "new" more inclusive commercial model, perhaps along the lines of a US model, where credit unions operate more like mainstream financial institutions such as banks (see Kaushik and Lopez 1994).

In Britain, it appears that credit unions have mainly developed in the old industrial regions as well as in places for the most part vacated by institutions in the mainstream financial sector. We do not have space here for a comprehensive review. Suffice it to say that there are at present well over 600 registered credit unions across the country. These range in size from those with as few as 50 members to those with membership in the low thousands. Whilst the majority are community credit unions, there are also a growing number of employer- and industrial-sector-based credit unions. In terms of geographical presence, the movement has a relatively strong membership presence in Scotland (where there are about 120 credit unions concentrated in urban centres such as Strathclyde and Dundee [Illsley and Jackson 1999:158]), the north of England (Manchester, Sheffield and Newcastle) and the Midlands (Birmingham). Increasing numbers of credit unions are developing in urban and rural areas in the south of England. In all areas, urban and rural, there is recognition that there is vast potential for further growth, especially as branches of banks and building societies continue to close.[5] However, such growth trends depend upon the kinds of credit union development models that take hold in particular localities.

In seeking routes to the expansion of the British credit union movement, the potential for further growth is increasingly being articulated in the same breath as a growing concern over the "health" of credit unions and the "success" of community credit unions in particular (see Jones 1998a). **[Au: are scare quotes needed on these two words, here and below?]** In many ways, the perceived potential, notions of "success" and the concern for the "health" of the movement go hand in hand; they represent intrinsically related and critical questions for the future of the movement in Britain. Such issues are currently at the forefront of the movement itself and the wider political environment in Britain. In terms of their contribution to policies on social and financial exclusion, credit unions are currently very much *en vogue*, particularly amongst policymakers and politicians at all levels of the UK state (Fuller and Jonas 1999a, b, c). **[Au: no Fuller and Jonas 1999c in references. Please provide a full citation.]** Credit union activists argue that the movement must take advantage of this current position of favour, and use this positive climate surrounding credit unions to its own advantage in tackling the barriers currently seen to hinder credit union development, thereby establishing real alternatives to the financial mainstream.

It has long been acknowledged within the credit union movement that, in most cases, "industrial" (employer-based) credit unions are "easier" to develop and run than their community-based counterparts. **[Au: are scare quotes needed?]** This is mainly due to the fact that employer credit unions can take advantage of pre-existing membership fields, operating systems, routes of information and publicity and so on that most employers already possess. These resources can be manipulated at a relatively low cost to serve the credit union's functions. This compares to community credit unions, which rely upon externally available organisational capacities such as volunteers or part-time staff funded by local authorities (Illsley and Jackson 1999). It is fair to argue that industrial credit unions have also been seen as being more "successful" than their community counterparts, as measured by their asset/membership ratio. However, there is increasing evidence that this "success" is relative: it owes much to the *lack* of development of community credit unions as to any intrinsic achievements on the part of employer-based credit unions. **[Au: are italics needed?]**

Table 1 illustrates this point by comparing the asset base of the two types of credit unions. The table highlights the fact that, in 1996, residential credit unions outnumbered employee credit unions by more than five to one, and yet had a lower level of overall membership. Community credit unions have a considerably lower average level of membership than those that are employee-based. Many residential credit unions have fewer than 200 members, and have had for some time. For example, of the 11 residential credit unions operating in Newcastle-upon-Tyne in June 1996, eight had membership levels below 100. The five credit unions operating in Dundee in 1997, four of which were community-based, had a total membership of 1500 (Illsley and Jackson 1999). Crucially, however, residential credit unions accounted for only 24.1% of total credit union assets in 1996, despite having over 45% of all members, a ratio that has declined steadily since the early 1990s.

In light of these development trends, questions have been raised within the movement as to the extent of the impact community credit unions are having within their common bond areas. Attempts are currently being made within the wider credit union movement to transform credit unions as local providers of credit and finance for all. These attempts build upon and feed into research undertaken by Liverpool John Moores University, ABCUL, English Community Enterprise Partnership, and the Co-operative Bank, supported by the Local Government

Management Board and the Local Government Association (Jones 1998a, b). **[Au: do later citations in your paper to "the Jones report" refer to the report on this research? If so, do they refer to both Jones 1998a and Jones 1998b, or only one of them?]** This research has highlighted a range of "problems" community credit unions face, including inability to grow, lack of financial self-sufficiency and reliance upon overworked volunteers (Jones 1998b:4). **[Au: are scare quotes needed?]** While noting the role played by restrictive legislation and weak and disunited national representation in contributing to these problems (see Fuller 2000b on these issues), the research also characterised community credit unions as representing an "old" model of credit union development. This model

> …typically assumes community credit unions to be small *(maybe only a few hundred members)* and entirely operationally organised by volunteers. These volunteers, irrespective of background and experience, are assumed to be able to develop the skills and knowledge to run the credit union without any particular difficulty so long as they are able to access the relevant training programme. It is further assumed that most of these credit unions will require grants or other external funding for some considerable time as they are not expected to generate significant income from making loans to members. (Jones 1998b) **[Au: need pp. for quote. Also, emphasis in original, or yours?]**

The Jones report suggests that the "old" model of credit union development is ultimately unsustainable because it tends to concentrate more on community activity, and on the personal and educational needs of the volunteers, than on offering a quality financial service to all people applicable within the common bond. **[Au: what do you mean by "applicable" here?]** Indeed, at a recent Local Economy Policy Unit seminar, a senior member of ABCUL referred to this model as being "flawed" in nature. Since there is little scope for membership expansion under the "old" model, it is suggested that credit unions need to work towards a "new" model.

In the report, Jones (1998b) suggests that the "new" model will require: a redefinition of the concept of "small" within the credit union context; a reorientation of the roles of credit union volunteers; the development of a more professional approach to providing a financial service; and the employment of paid staff to carry out day-to-day business operations. These changes might encourage mergers, takeovers and even some closures of existing community credit unions. In the absence of any change in direction, groups operating under the "old" model would struggle on, but without an increasing level of support it would be hard to imagine credit unions contributing effectively to wider societal goals. For example, a local community development worker in Kingston-upon-Hull (one of the localities we have studied in some depth and in which credit union development has focussed upon the city's peripheral housing estates, which include some extremely impoverished neighbourhoods) argued that it would take a long time before any operational community credit union began to reach those who were most needy, if indeed it ever reached them. **[Au: in what source did the worker make this argument?]** Such credit unions would continue to depend on state aid and volunteer workers to survive.

Any attempt to make credit unions in Britain more financially and socially sustainable would therefore seem to involve a widespread and controversial restyling of the "old" model of credit union development towards a "new" model. This "new" model would, it is proposed, be based on the interlinked aims of being commercially successful, mutually committed *and* socially inclusive. However, this is not to suggest that there is widespread consensus within the credit union movement about the future direction of change. For instance, the National Association of Credit Union Workers (NACUW) has voiced its criticism regarding a number of aspects contained within the research (NACUW 1999b). Although it shares the Jones report's concerns regarding those credit unions that appear to be failing, and acknowledges the workers' own attempts to promote a more "business-like" approach within credit union development more generally, NACUW (1999b:2) has suggested that "it would be a great failure if credit unions became so obsessed with and focused on their economic purpose that they became just another financial institution". **[Au: are scare quotes needed?]** NACUW (1999b:2) has criticised the manner in which the report categorises community credit unions as based on a "voluntary sector" business model, preferring instead that these credit unions be referred to as "community-based, or owned, mutual financial institutions". NACUW has also suggested that more emphasis should have been given to the role of national organisations, such as ABCUL and the Registry of Friendly Societies, in encouraging an environment in which community credit unions have remained for the most part small-scale volunteer-run operations.

There is increasing evidence of a potential rift within the credit union movement regarding the future development of credit unions in Britain. The transformation of the "old" credit union development model lies (crudely at least) more firmly alongside instrumentalist interpretations of credit union development (Berthoud and Hinton 1989). **[Au: more firmly there than where?]** It is perhaps no surprise that ABCUL, whose own philosophy would seem to mirror such claims, is at the forefront of these moves, and that the organisation has been very successful in utilising the research findings to effect and further its own agenda (for example, see the extensive and somewhat uncritical usage of the research findings within Her Majesty's Treasury 1999a, b, c and Local Government Association 1999). **[Au: The claims articulated by**

NACUW, or in the Jones report? What moves? Also, no Local Government Association in references; please provide full citation.] In this respect, a clear need exists to analyse the consumption of these ideas within the movement as, in many ways the "new" model requires a reassembling of notions both of the credit union model as an "alternative" to the financial mainstream and of what defines a "successful" credit union (Fuller and Jonas 1999a, b, c). Moreover, this requires analysis of the interface between credit union groups (the members, not only those that run the individual credit unions) and the national representative bodies, and how these transformations work out "on the ground". An important development in this context is the role of credit unions in wider policy debates about social exclusion and financial reform in Britain.

Changes and Challenges II: New Labour Policies on Social Exclusion and Financial Reform in the UK

We have noted how recent academic interest in "local monies" has opened up the possibility for studying those financial institutions not directly tied to mainstream sources of credit. Our own initial interest in community credit unions grew out of the assumption that they indeed provided "alternative" sources of credit. Paradoxically, however, the further development of credit unions in Britain may depend on fostering closer ties between this "alternative" sector and mainstream institutions. This in turn relates to the manner in which the British credit union movement is gaining strength in the national arena, seeking to influence state policies and regulations that it hopes will serve to empower people and communities, financially and socially (Fuller and Jonas 1999a, b). However, as has been noted, it may be argued that certain sections of the movement—ABCUL in particular—are currently more successful in influencing these matters than are others.

The second challenge facing the credit union movement, therefore, concerns the rapidly changing policy and regulatory environments of credit union development, and how these environments are being influenced by certain ideological perspectives.

Credit unions are gradually being absorbed into the mainstream of social and economic policy making in Britain. Under the leadership of Prime Minister Tony Blair, New Labour has been keen to highlight the positive impacts credit unions can make in terms of combating social exclusion and financial withdrawal (Fitchew 1998; Social Exclusion Unit 1998). Recent proposals from Her Majesty's Government's Social Exclusion Unit suggest that credit unions are seen in a positive light. These proposals have been derived through work conducted by the Credit Union Taskforce and the Social Exclusion Unit's Policy Action Team (PAT) 14. Although the precise role of credit unions within social exclusion policy remains ambiguous, it is evident that credit union development is consistent with certain features of Third Way politics. In particular, New Labour continues to accept the hegemonic position of global finance within the British economy whilst simultaneously encouraging institutions like credit unions to develop in order to counter the problems created by financial withdrawal and social exclusion.[6] At the same time, however, a policy emphasis is developing concerned with fostering stronger ties between "alternative" institutions, as represented in this instance by credit unions, and the financial mainstream.

Established in 1998, the Credit Union Taskforce had a main objective of helping more people on low incomes gain access to financial services. This included an exploration of the ways in which banks and building societies could help further the development of credit unions locally. The Taskforce was chaired by Fred Goodwin, Deputy Group Chief Executive of the Royal Bank of Scotland, and was comprised of senior representatives from banks, building societies and the credit union movement. Its remit was to explore ways in which banks and building societies could work more closely with credit unions to increase their effectiveness, widen the range of services provided to credit union customers and encourage the continued expansion of the movement (Her Majesty's Treasury 1998c). In so doing, it aimed to identify best practice in these areas and to consider how they could be promoted more widely, as well as to propose new areas for co-operation. In a similar vein, the Social Exclusion Unit's PAT 14 is one of 18 teams set up under the initiative to tackle social exclusion (Social Exclusion Unit 1998). This group had a particular emphasis on widening access to financial services.

Both organisations reflect New Labour's determination to see credit unions play a more emphatic role in countering social and financial exclusion. The government's central aim is to improve individual access to financial services, and its has made a range of recommendations to further this aim, relating to the credit unions specifically and the financial services sector more generally. As Helen Liddell, then Economic Secretary to the Treasury (the remit of which includes responsibility for credit unions), argued at the launch of the Taskforce:

> Credit unions have an important role as a place for savings and source of low cost credit for the less well off. They can also provide a first rung on the ladder of financial services for young people. We want to build on that. If banks and credit unions work together we could see more people having access to bank accounts and credit who do not presently do so. (Her Majesty's Treasury 1998c:1).

At the same time, there is a growing awareness of a number of barriers to credit union development in Britain along the lines of those identified in the Jones report.

Following these proposals, the Economic Secretary to the Treasury, Melanie Johnson (Her Majesty's Treasury 1999a:1), has recently outlined six main initiatives designed to "help people in disadvantaged communities excluded from key financial services". A key emphasis within these proposals concerns the need to "boost" credit union development within Britain through changes to the regulatory framework for credit unions and the creation of a new Central Services Organisation to support and enhance the role of credit unions. **[Au: are scare quotes needed?]**

Changes to Credit Union Regulation

Current regulations governing credit union activity date back to the 1979 Credit Union Act. However, recent proposals initiated from the Treasury highlight a number of changes to the legislation that are likely to affect how credit unions develop and operate in the future. These measures are intended to "encourage growth in the movement while retaining credit unions' focus on providing financial services to the poorer members of society" (Her Majesty's Treasury 1998b:1). Financial reform marks the first steps towards the establishment of a new regulatory regime that is likely to affect this "alternative" sector and its relationship to mainstream financial institutions.

Financial deregulation in 1996 did not quell widespread dissatisfaction with current legislation governing the operation of credit unions throughout England, Scotland and Wales. At the recent World Council of Credit Unions' conference in Glasgow, the Chief Registrar of Friendly Societies criticised the 1979 Credit Union Act and provided three reasons for the necessity for financial reform:

> [First, the]…1979 Act restricts very severely the range of services credit unions can provide to their members and how they can fund themselves. Second, the system of supervision and regulation laid down in the Act is rudimentary and the powers of intervention given to the Registry as supervisor are far too inflexible. In effect, if a credit union gets into difficulty, the only options we have are to do nothing or close it down…Last, but not least, UK credit unions have no share protection scheme. Both we and the credit union movement believe that the surest and quickest way of bringing in a share protection scheme is to make it a statutory requirement. (Fitchew 1998:1–2)

The deregulatory measures designed to improve the legislative environment are largely in accordance with proposals outlined in 1997 by the Inter-Association Legislative Liaison Group (IALLG). Members of the group included ABCUL, NACUW, NFCU, the Association of Independent Credit Unions (AICU), and the Scottish League of Credit Unions (SLCU). The IALLG produced a report, entitled *Common Ground: National Goals for Improving the Laws Governing Credit Unions*, which argued (IALLG 1997:1) that the current laws governing credit union operations in the UK "have been a principal impediment to the growth of the movement and its ability to serve its members' needs". The report was conducted under the guiding principle that "any changes to the Credit Unions Act must preserve and promote the unique nature, structure, philosophy and ethos of credit unions as mutual, democratic and not-for-profit financial co-operatives, managed and directed by volunteers and operated for the economic and social benefit of their members" (IALLG, 1997:1). Importantly, the Treasury's 1998 consultation document on legislative change, *Proposed Amendments to the Credit Unions Act 1979*, included many of the recommendations contained within this report (Her Majesty's Treasury 1998a). After consultation, this has formed the basis for recent proposals.

The following reforms to credit union legislation have been proposed: increases in the maximum repayment period for loans; greater flexibility in the common bond requirements; alignment of the maximum amounts that can be held in youth accounts with adult account levels; the removal of the maximum membership limit for individual credit unions; allowing credit unions to charge for ancillary services; greater flexibility on the disposal of repossessed collateral; further consultation on increasing the sources from which credit unions can obtain credit; and greater flexibility on dividend accounts (Her Majesty's Treasury 1999b). Clearly, taken as a whole, these measures are intended to further remove the restrictions resulting from the original 1979 Act. However, as with the Jones report, which in fact forms the basis of some of these proposals, there is an implicit argument that all credit unions should follow, and benefit from, financial reform, regardless of their own identity, priorities and philosophical outlook.

Alongside these measures, and in light of the "considerable scepticism" surrounding the effectiveness of the current system (Her Majesty's Treasury 1999c:11), the Treasury has also announced a new regulatory regime for credit unions based around the Financial Services Authority (FSA). Both the PAT 14 report and the Credit Union Taskforce report stress the need for effective regulation and enforcement as a means of protecting depositors, ensuring confidence and ensuring quality service provision. However, whilst "stronger regulation is the natural counterpart of a stronger credit union movement" (Social Exclusion Unit 1999: 17), both reports also acknowledge the need for a gradual process of reform, on the grounds that sudden moves might jeopardise the survival of many small community credit unions, as predicted in the Jones report.

There are two outstanding issues in the financial reform debate. The first relates to the level of fees payable to the FSA from credit unions vis-à-vis those of other financial sector institutions. The FSA needs to cover its costs, but there are concerns about the impact of such fees on smaller credit unions in particular. The second issue concerns how the FSA will be sensitive to what has been termed the “principle of proportionality”, a somewhat vague reference for the need to “leave room for weaker credit unions to grow, provided they appear likely to have a viable future, rather than threaten them with extermination” (Social Exclusion Unit 1999:17). **[Au: need citation and pp. for first phrase, unless it also comes from the Social Exclusion Unit source.]** As the PAT 14 report highlights:

> Whilst it is clear that these measures *could* enable credit union growth, their effectiveness, assuming they are implemented in due course, will depend on the readiness and capacity of individual credit unions to exploit the opportunities. This cannot be taken for granted. Indeed, there may be a danger of too little response, particularly from community credit unions, unless there is positive encouragement. (Social Exclusion Unit 1999:13)

This encouragement derives from a second main initiative within the package of regulatory reforms: the creation of a Central Services Organisation geared towards promoting credit union growth and development in Britain.

The Central Services Organisation (CSO)

The idea of a CSO comes from countries where the credit union movement has grown substantially and “successfully” and some form of CSO has been present (Her Majesty’s Treasury 1999c). **[Au: are scare quotes needed?]** Overseas CSOs suggest a range of possible services that a British equivalent could provide either directly or through out-sourcing to banks and other organisations with skills and expertise in that area. The proposal to establish an equivalent body in Britain provides an intriguing opportunity for banks and building societies to help further the development of credit unions in Britain. In short, it represents an opportunity for even closer links between credit unions and the financial mainstream.

CSO services might include: back-office processing services to relieve volunteers of book-keeping and other “administrative” tasks such as bill payments and other transaction services; assistance with business planning and financial management; assistance with member financial education and marketing; the provision of a treasury management facility; assistance with product development; recycling surpluses from credit unions with an excess of savings to those with an excess of borrowers; and general encouragement and support at each development stage (Her Majesty’s Treasury 1999c:13; Social Exclusion Unit 1999:16). **[Au: are scare quotes needed?]** However, there has been little discussion of how such services may be relevant to those with a more local, community-focused agenda.

The actual structure of the CSO is yet to be determined. Options include a single body for the entire UK or a federal/regional structure. It has been suggested that the CSO would carry out many of the roles currently assigned to local authorities, with local authority money being channelled through this source for the provision of credit union services. One potential consequence of this procedure could be the effective standardisation of “local” approaches to credit union service issues, again possibly benefiting institutions whose service provision philosophy is in line with central government and ABCUL views. **[Au: at what point did a**

previous such benefit occur?]

In addition, it is envisaged that the CSO will work alongside local development agencies, which would have an organisational and developmental role, but the extent of influence the CSO might have in this relationship is unclear. It is argued that the CSO would be of value to the whole of the movement, bridging and unifying the differences in philosophy that currently characterise organisations in the national movement. As the PAT 14 report (Social Exclusion Unit 1999:19) argues, "[t]he establishment of the CSO in particular…would be a significant step towards providing a central focus for the movement". However it could also be seen as an attempt to nullify such differences through the need to follow a certain prescribed direction of development in order to fully "benefit" from the services it might provide. **[Au: are scare quotes needed, here and in next sentence?]** For instance, further "rewards" for those who embrace this development include a proposal that bank and building society assistance might be achievable through the CSO in the form of capital to enable the establishment of the organisation itself, material gifts such as premises or equipment and the secondment of staff with appropriate expertise.

Many of these proposals, if not all of them, are still open for consultation and change. Specific details concerning both the regulatory regime (the role of the FSA) and the newly proposed CSO are yet to be decided. It is perhaps too early to speculate on the long-term effects these changes will have on community credit unions. However, it is clear that the new direction currently being recommended for British credit union development accepts many of the premises contained in the Jones report, to the extent that a mutually beneficial relationship between ABCUL and the central government appears to be developing. At a time when credit unions are being appropriated by the state under a selective instrumentalist guise, we argue that questions must be raised regarding their “alternative” status in relation to the financial mainstream. There is the distinct possibility that credit unions are being groomed into a form of second-tier banking service, perhaps allowing mainstream players to continue to target the wealthier sections of society whilst relieving their conscience (and bad publicity) through participation in the development of an effective “alternative” for those left behind, but one on a different scale and in a different sense than the “alternative” forms highlighted in the recent academic work outlined above.

This is a critical period for British credit union development and, in particular, for those credit unions that developed out of an idealist tradition and perspective (Berthoud and Hinton 1989). As such, there is a need to consider the politics behind these relationships and whom they will benefit. There is a need to assess how these aims relate to attempts identified in this work to redirect credit union development as a source of credit and finance for all. Will this entail British credit unions becoming a source of true competition to the mainstream, or simply part of it? More generally, future work in this field will need to consider the implications of such issues for the “alternative” status of the credit union model, alongside other “alternative” sources in Britain in the future. For instance, intriguing questions remain concerning where LETS fit into the Blairite antiexclusion manifesto, and whether they represent an alternative philosophy that is simply too alternative for the government to stomach (or claim success for). **[Au: double use of alternative. Do you want to suggest a synonym for one use, or retain both?]**

On a more “local” level, and in relation to use of credit unions within existing or future community economic development initiatives, the relationships between such “national” strategies, local credit union groups, existing CED initiatives and wider institutions of local governance will also merit increased scrutiny. **[Au: are scare quotes needed?]** We briefly consider them here as the third major challenge facing British credit union development in the years ahead.

Changes and Challenges III: The "Local" Challenge

The third challenge for the credit union movement, in all its complexity, relates to how local development trajectories and experiences can or will influence the direction of the overall movement. With changes already underway within the movement, alongside impending regulatory and organisational reform, national strategies are likely to affect the goals and directions of local development(s). At the same time, the contested nature of credit union development (Fuller 1998a) reflects and is mirrored by the various routes to development already observable at the local level. Since the movement's early years (in Britain, the 1960s), credit unions have relied first and foremost on community-based organisational capacities and resources.

This is now changing: in terms of shaping credit union development trajectories, the local and the national scales are becoming increasingly intertwined. In the past, this was not necessarily the case; aside from credit union workers and volunteers, the key players in credit union development have been local authorities, which have provided grants for feasibility studies, set aside premises and in some cases even funded staff. However, although many credit unions continue to develop in conjunction with supportive local authorities (Thomas and Balloch 1992), the nature of this "support" appears to vary from area to area, most clearly in terms of whether credit union development is articulated locally as "community development," "community economic development," or "local economic development" (see Fuller 1997). **[Au: are scare quotes on "support" needed? Also, if quoted phrases are source quotes, need pp.]**

Furthermore, the nature of this relationship is likely to change, not only because the wider context of local governance in Britain is changing (see, eg, Cochrane 1993), but also because the credit union movement itself is beginning to consider, question, adopt or be directed towards generalised credit union development models such as that proposed in the Jones report.

One direction in which the local development context is most likely to evolve is through the increasing legitimacy of CED initiatives. Such initiatives have flourished throughout Britain and the rest of Europe in response to the deindustrialisation of regions once heavily dependent upon manufacturing and, more recently, due to the availability of community regeneration funds from national governments and the European Union (see, eg, Amin, Cameron and Hudson 1998, 1999; Mayer 1998; Regional Studies Association 1997). Although community credit unions are increasingly being studied from the vantage point of their contribution to CED, regeneration and the social economy (West 1999), there remains little overall understanding of which development strategies are more or less effective in the short or long term, and how these arise from the specific economic and political conditions of localities. This lack of understanding takes on increased importance when considered in terms of possible attempts to "standardise" development strategies through organisations such as the CSO. **[Au: are scare quotes needed?]**

In Britain, CED initiatives have been geared towards enhancing labour market flexibility, addressing chronic unemployment and combating social exclusion (see, eg, Haughton 1999b; Lawless et al 1998; Regional Studies Association 1997). Haughton (1999a) characterises CED in terms of an emphasis in developing local economic strategies that assist in "restructuring for community" rather than "restructuring for capital". **[Au: need pp. for quotes.]** These strategies embrace "a range of approaches to developing more localised economies, which focus less on wealth and job creation and more on creating socially useful goods and services, meeting local needs in ways which maximise the capture of benefits to local residents…" (Haughton 1999a:15). Such strategies tend to be grounded in networks and partnerships that are not necessarily related to mainstream forms of local economic development and are promoted by actors operating at some distance from the dominant governance institutions of a locality (Clavel 1986; Fitzgerald 1991; Haughton and While 1999; Jonas 1995). Filion (1998:1115) suggests that CED initiatives tend to be constructed around a local culture "imbued with a deep attachment to the community and a powerful will to survive in the face of economic adversity".

It is certainly possible to see how credit union development can be understood from the perspective of such interpretations of CED. However, in the same way that Haughton (1999a:16) suggests there is no single "model" of CED, it might, in the case of credit unions, become increasingly difficult in practice to draw a sharp distinction between community-focused and mainstream local development strategies. As we see it, a key issue of struggle in Britain will be which credit union "model" is most likely to be adopted in any given local context and how national developments may frame, impinge upon or restrict such local strategies. Clearly, the "new" model of credit union development suggested in the Jones report might not be consistent with a community-based approach to credit union development. Whilst this might imply that strategic choices will still have to be made at the local level regarding appropriate and sustainable development strategies for credit unions, it might also suggest the potential for conflict and repression of difference at the local level.

In order to be sustainable, community credit unions will increasingly need to confront the issue of whether or not to cultivate closer ties to the financial mainstream within or beyond their localities and to explore funding and resource opportunities available locally as well as at wider spatial scales. This may involve developing strategies beyond those that emphasise credit union development as simply an aspect of CED. Even in the case of CED, as the proposals emanating from the national scales become more firmly grounded, credit union organisers will be faced with the challenge of engaging with institutions—and spatial scales—other than those in their local areas (eg, local authorities) in order to obtain resources and financial assistance. In this respect, different strategies developed within and beyond the immediate locality are likely to shape community credit union development trajectories in the future. In terms of defining financial "alternatives" in Britain, the local and the national are becoming increasingly intertwined. **[Au: this last phrase repeats one at the outset of the paragraph above beginning "This is now changing:".]**

Paradoxically, at a time when the credit union movement is facing the potential "top-down" imposition of a "right way" to develop and operate locally, research on CED in Britain has begun to move away from generalised, instrumentalist understandings of "best practice" towards contextual analysis of specific initiatives. **[Au: are scare quotes on "best practice" needed?]** Recent studies have demonstrated the variety of different forms that CED takes in different localities and how these local experiences could feed into wider policies and strategies for combating exclusion in society (Amin, Cameron and Hudson 1998, 1999; Haughton 1999b; Mayer 1998). Thus, one aspect of the local challenge could relate to the manner in which CED initiatives may increasingly focus upon or incorporate community credit unions. With potentially differing approaches to credit union development in different localities producing different development strategies, aims and outcomes, it will be interesting to consider what the net contribution of such approaches to broader societal aims will be. Moreover, what defines a "successful" credit union is likely to vary from area to area. As such, we suggest that there is a need for organisers within the movement to reflect on what could well be a wide range of local routes to development set within a wide range of collaborative ventures between local credit union groups, their supporting structures or organisations and local governance, and how these strategies, in turn, will influence and be influenced by development at other spatial scales. **[Au: double use of “wide range”. Do you want to suggest a synonym for one use, or retain both?]**

Conclusions

This paper has offered some preliminary reflections upon the potential role of community credit unions in the development of financially sustainable and socially inclusive communities in Britain. We have highlighted a number of key challenges and changes that will confront the movement over the next few years. In particular, we have commented on the tension between the financial stability of credit unions and their social inclusiveness, a tension that manifests in debates concerning which “model” (or direction) of credit union development to pursue. The “old” model of the community credit unions has often served to provide individuals in their communities with access to sources of finance and credit increasingly unavailable within the mainstream financial sector. However, the limitations of this model are being debated within and outside the movement, with increasing calls for a move towards a more commercialised “new” model that could involve closer links to mainstream financial institutions. We have also noted how regulatory and political developments at the national level are likely to strongly affect—and possibly already affect—credit union development trajectories in particular localities. Finally, we have pointed out that a number of challenges to credit union development remain at the local level, particularly in the area of harnessing local strategic capacities available under CED initiatives.

In our view, there are signs that the credit union movement in Britain is threatened by the potential of it evolving into a “two-tiered” system that effectively relegates community credit unions to the level of “second-class” financial institutions whose primary responsibility is to redress problems of social and financial exclusion that have in effect been “caused” by mainstream institutions. **[Au: are scare quotes needed?]** Furthermore, the smaller/idealist credit unions may find themselves ostracised completely from this “new” model view, relegating them to a point even further down the development hierarchy. This is by no means inevitable, but as each “consultation” period passes it looks more likely. As a result, workers and activists within the movement will have to make some difficult choices regarding what sorts of development models to pursue.

Under certain circumstances, we argue, there may be advantages in continuing to see credit union development as primarily a community concern, or at least as community-based rather than nationally determined. Here, credit union workers will face practical issues to do with funding and political support. For instance, as noted above, local authorities have played important roles in supporting community credit unions, but the nature and direction of their roles might change as new fiscal pressures are put on them and credit unions look to alternative sources of support and spatial scales, such as central government or the European Union. By the same token, protecting the “old” model could become a self-defeating strategy, restricting credit union growth and denying the movement’s capacity to realise a wider agenda. The “local challenge”, then, is to identify which models of credit union development are sustainable in any given context and to use these models to redefine what makes a credit union “successful” in both local and national terms. **[Au: are scare quotes on “local challenge” needed?]** Credit unions may be seen as contributing to community development, community economic development or even “mainstream” local economic development, depending on who “sees” these different visions. **[Au: are scare quotes needed?]** As it becomes increasingly difficult to generalise about the nature, meaning and role of the "community" in the development of credit unions, their future development and manifestation in local areas warrants further and more critical analysis.

Our overview of challenges and changes facing the credit union movement in Britain indicates some directions for future theoretically informed research on the social relations of "local monies" and alternative financial institutions. One issue that is likely to preoccupy researchers over the coming years concerns the relative degree of "autonomy" of alternative financial institutions from the economic mainstream. The underlying assumption of much work to date on "local monies" is that such "self-help" local economies must retain their autonomy from the financial mainstream and that a key to this is precisely their *local*ness. However, this is becoming less true of credit unions in Britain, as suggested by changes to the regulation of credit unions and their growing links to the banking sector. It might well be that through increased linkages, and in at least some part through becoming more commercially "successful", credit unions may lose their community status and hence the sociospatial basis of their "autonomous" development. However, this simply begs the question of whether it is possible in the current context to assume that the sustainability of "local monies" solely depends upon their independence from the mainstream—that, in other words, their development depends principally on the characteristics of and capacities available within the localities in which these alternatives are to be found. Our research suggests that it is dangerous to assume that community credit unions will continue to develop in their current form without looking beyond their immediate, local development context. What is important, then, is not so much whether credit unions can retain some degree of institutional and local "autonomy", but rather the extent to which by engaging with their external environment these institutions become more or less sustainable and socially inclusive.

In this regard, the problem of spatial scale is becoming increasingly central to how boundaries within the financial services sector in Britain are being redrawn. Here we suggest that lessons can still be learnt from Harvey's pioneering work on housing finance in the US (Harvey 1974, 1985). In examining financial exclusion in the city, Harvey contrasted "parochial" movements—those that pitted one neighbourhood or community against another so that the average material condition of communities did not change—with "nonparochial" movements—those that sought to combat financial exclusion by mobilising and harnessing organisational capacities at wider spatial scales.[7] **[Au: in which of the two sources you cite did he do this? Also, are scare quotes needed?]** Applying these ideas to credit unions in Britain, we can see advantages in situating community credit union development in relation to a scalar politics operating within the credit union movement and through national financial re-regulation and policies on social exclusion. Yet the solution to empowering people financially is not simply a question of how institutions like community credit unions can gain greater national legitimacy, for "empowerment is not simply, or even, a question of jumping up scales. Often several scales, up and down the spectrum, are simultaneously involved" (Jonas 1994:261).

Seen in this light, the issue of financial "autonomy" in Britain has essentially become a scalar-strategic question (Jonas 2000). It revolves around the issue of whether credit unions workers in particular localities will strategically want community credit unions to remain "autonomous" from the financial mainstream. This will depend upon the types of development strategies pursued within particular localities, the extent to which the philosophies and ideals underpinning these strategies have been influenced by wider trends in the movement and how these strategies engage in turn with strategic capacities, resources and instrumentalities available locally, nationally or internationally. On the one hand, encouraging the growth of community credit unions through government assistance and stronger regulation offers a genuine opportunity for creating more inclusive financial institutions, locally as well as in wider British society. On the other hand, there is the danger that recent attempts to make credit unions less “parochial” by linking them to the financial mainstream simply reinforce spatially uneven patterns of financial withdrawal between and within localities.

Strategically, there are still advantages in refocusing credit union development efforts within localities where patterns of financial exclusion are already well established. Yet, at the same time, it is important not to lose sight of the global-strategic significance of community-based initiatives represented by activities like community credit union development. As Filion (1998) has argued, community-based development initiatives currently offer the best prospect for defining “alternative” institutional pathways in post-Fordism. It seems that the credit union movement is moving to the centre of struggles around defining “alternative” institutional pathways in contemporary Britain.

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In preparing this paper, we benefited from extensive discussions with credit union workers and representatives of national credit union organisations across Britain. The interpretations presented in this paper are not necessarily the same as the views of any of these individuals or organisations. We would also like to thank Graham Haughton for clarifying a few points about community economic development and the *Antipode* reviewers for their critical observations on a previous version of the paper.

The usual disclaimers apply.

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Notes

[1] In this paper, we will continue to use the term “mainstream” to encompass the key, widely used financial institutions such as banks and building societies. Clearly, in the context of this paper, use of such a term is problematic (and perhaps ironic) in itself, increasingly so given the growing abundance of other sources of credit and finance such as check-traders, moneylenders, pawnbrokers and personal finance companies. However, we feel that the presence and impact of these other sources still largely mediates against including them within such a category, while in themselves representing the blurring between “alternative” and “mainstream”.

[2] Although in this paper we focus on community credit unions, it should be noted that there are many examples of successful employer-based credit unions in Britain. Credit unions are also operated “associationally”, for instance, by members of trades unions in certain sectors of the British economy.

[3] Our initial research focused on credit union development in Kingston-upon-Hull, Newcastle-upon-Tyne and Manchester, with further discussions held with a range of activists in Sheffield, Rotherham and Huddersfield. We also interviewed representatives of all the major national credit union organisations in Britain.

[4] Whilst we recognise that devolution is likely to alter the development context for credit unions in Scotland, Wales and England, for the purpose of this paper we are focusing on trends that uniformly affect credit unions throughout Britain.

[5] This growth potential was recently highlighted by Barclays Bank’s decision in April 2000 to close 172 rural branches across Britain. Responding to this decision, the Archbishop of Wales, Rowan Williams, suggested that Britain’s abandoned banks should be turned into community credit unions (Palast 2000). There is no law in Britain equivalent to the Community Reinvestment Act in the US, which requires banks planning to close branches to prove to the satisfaction of the Federal Reserve or US courts that community banking needs will continue to be met after the closures.

[6] We note here that social exclusion policy in Britain draws heavily on theories of social capital and democratic participation as applied to the US context (Gunn and Gunn 1991; Putnam 1993).

[7] This resonates with recent work on the politics of geographical scale (for early interventions, see, eg, Miller 1994; Smith 1992). In our view, the question of “autonomous” local development of financial alternatives provides a useful entry point into theorising scalar politics.