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PERFORMANCE OF INTERNATIONAL CREDIT UNIONS MOVEMENT

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Abstract. Credit unions are cooperative member-owned, not-for-profit financial organisations established to provide savings, credit and other financial services, and to attain economic and social goals of their members and local communities. They play a major role in providing micro-credits in many regions. At the end of 2014, there were 57 408 credit unions in 105 countries with more than 217.4 million members and approximately USD 1792.94 billion assets. This indicates on the necessity to analyse the performance of credit unions. The research aim is to identify the features and performance characteristics of the credit unions based on a particular insight into the operation of credit unions in the Baltic States. It was concluded that in many countries credit unions were operating at a loan-to-asset ratio which was much lower than the World Council of Credit Unions (WOCCU) requirements. Among the Baltic States, Lithuania is the leader in terms of credit unions as it almost twice outpaces Latvia, while Estonia considerably lags behind. In Latvia, credit unions have managed to preserve a stable increase related to attraction of savings and deposits. This means that the members trust credit unions and see the significance and convenience joining them. Similar conclusions may be drawn regarding the amount of disbursed loans.

Key words: credit unions, assets, savings, loans, regions.

JEL code: G18, G21, G23

Introduction

Credit unions and cooperatives play an increasingly significant economic and social role for supporting their members. They play a major role in providing micro-credits in many regions. Credit union membership is based on a common bond, a linkage shared by savers and borrowers who belong to a specific community, organisation, religion or place of employment. However, in some countries they face limitations as regards savings mobilisation from their members and provision of small loans to legal persons such as small businesses. It may be possible for micro-enterprises (or the individuals running them) to fall within a particular common bond but a general permission to lend to any micro-enterprise cannot exist as there would then be no difference between a credit union and a bank (Mazure, 2011).

At the end of 2014, there were 57 408 credit unions in 105 countries with more than 217.4 million members and approximately USD 1792.94 billion assets. This indicates on the necessity to analyse the performance of credit unions over the world. Many foreign and Latvian authors (Baltaca, Pirie, 2008; Croteau, 1967; Cuevas, Fisher, 2006; Dale, s.a.; Flannery, 1981; Jaseviciene, Kedaitis, Vidzbelyte, 2014; Levisauskaite, Kaupelyte, 2003; Lopriore, Pati, 2012; Mavrenko, 2003; Mazure, 2011; Rackauskas, Levisauskaite, 2013; McKillop, Wilson, 2014) have analysed and discussed the role and activities of credit unions worldwide; though their studies have been aimed at different aspects of credit unions, mainly either providing a historical overview or the analysis of particular countries. Another important aspect, there are very few studies on credit unions in Latvia. The following hypothesis is advanced in the research: the performance indicators of credit unions do not always depend on the number of credit unions and their members. The research **aim** is to identify the features and performance characteristics of the credit unions based on a particular insight into the operation of credit unions in the Baltic States. To reach the aim, the following **tasks** are to be carried out:

1) to describe the essence and operation principles of credit unions;
2) to analyse financial information of international credit unions;
3) to evaluate the performance of credit unions in Latvia and Lithuania.

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The information compiled by the World Council of Credit Unions, the Financial Capital and Market Commission of the Republic of Latvia, the Bank of Lithuania, scientific publications of foreign and local researchers, and other materials have been used for the purpose of the study. The research is mainly based on the monographic descriptive method as well as the methods of analysis and synthesis are used to study the problem elements and synthesise coherencies or formulate regularities.

Research results and discussion

1. Essence and operation principles of credit unions

Previous studies on the concept of credit unions reveal that this type of institution is a simple one having remained unchanged from the earliest organisations. Essentially, the members of a credit union function as a fiscal collective, coming together to create a non-profit financial institution. Members deposit funds for saving and the credit union makes loans available to its members (Mazure, 2011). Generally, credit unions tend to be made up of members with some sort of similarity, such as by profession. In some places, credit unions are called by other names, for example, in many African countries they are called "savings and credit cooperative organisations" to emphasise savings before credit. In Spanish-speaking countries, they are often called *cooperativas de ahorro y crédito*, while in Mexico they are typically called a *caja popular*. French terms for "credit union" include *caisse populaire* and *banque populaire*. Afghan credit unions are called "islamic investment and finance cooperatives" and comply with Islamic banking practices (Credit Union, s.a.).

Foreign researchers differently define the concept of credit unions; however, all the concepts are quite similar in terms of the common features of credit unions such as membership principles, mutual assistance, voluntaryism, social contribution, democratic governance and some other principles (Jaseviciene et al., 2014). Researchers from the University of St Andrews, UK have investigated that "credit unions are self-help cooperative financial organisations geared to attaining the economic and social goals of their members and their local community" (McKillop, Wilson, 2014). Credit unions rely on active participation of members to differentiate them from shareholder-owned firms, and to develop and support competitive advantage in the provision of savings and loan products and other ancillary services. Therefore, they cannot do business with the general public due to limitations based on serving a membership that is characterised by a common bond (McKillop, Wilson, 2014). This means that literature does not distinguish between single universally accepted definitions of credit unions.

In 1844, a group of weavers in Rochdale, England established the Rochdale Society of Equitable Pioneers. They sold shares to members to raise the capital necessary to buy goods at lower than retail prices, and then sold the goods at a savings to members. In doing so, they became the first credit union. The Rochdale Society formed the basis for the principles on which cooperatives around the world continue to operate. The original Rochdale Principles were officially adopted by the International Cooperative Alliance (ICA) in 1937 as the Rochdale Principles of Cooperation. Updated versions of the principles were adopted by the ICA in 1966 as the Cooperative Principles and in 1995 as part of the Statement of the Cooperative Identity (ICA, s.a.). The cooperative principles are guidelines by which cooperatives put their values into practice and their summary is reflected in Figure 1.

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Source: author's construction

Fig. 1. **The Rochdale principles for the operation of cooperatives**

The International Cooperative Alliance recommends every cooperative and credit union to stick to the following principles:

1) voluntary and open membership – cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination;
2) democratic member control – cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions;
3) member economic participation – members contribute equitably to, and democratically control, the capital of their cooperative;
4) autonomy and independence – cooperatives are autonomous self-help organisations controlled by their members;
5) education, training and information – cooperatives provide education and training for their members, representatives, and employees so they can contribute effectively to the development of their cooperatives;
6) cooperation among cooperatives – cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures;
7) concern for community – cooperatives work for the sustainable development of their communities through policies approved by their members (The Rochdale Principles, s.a.).

The Rochdale principles determine that cooperative members have equal voting rights, i.e. one member - one vote. The economic participation principle means that members allocate surpluses for: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership. The autonomy and independence principle, in turn, states that if cooperatives enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy. In addition, cooperatives have to

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inform the general public about the nature and benefits of cooperation (The Rochdale Principles, s.a.).

It is believed that only the first six principles are the original Rochdale principles, while the last one has been added to specify and expand the responsibility of cooperatives for the society. In practice, every cooperative or credit union adapts and modifies these principles consistent with the state's standards, cultural peculiarities and legislative requirements.

Some words shall be also said about legal regulation of credit unions. The World Council of Credit Unions has established that "credit unions do not compete directly with banks that adhere to Basel II, in which case the focus should be on creating a strong risk-based supervisory system. In the appropriate environment, Basel II implementation may help establish regulatory neutrality and introduce a risk-sensitive capital and management framework for credit unions. However, prior to applying Basel II in any country, the credit union sector should have the opportunity to comment on the new regulatory requirement and complete a quantitative impact study to understand the potential ramifications of applying Basel II" (WOCCU, s.a). The same refers to Basel III requirements adopted in 2010.

2. Financial information analysis of credit unions

The World Council of Credit Unions acts as the leading voice for advocacy and governance on behalf of the international credit union community. The WOCCU continues to promote economic freedom and the sustainable growth of financial cooperatives across the globe through education, collaboration and community-based development projects (World Council of Credit Unions, 2011). The annual statistical report prepared by the World Council of Credit Unions, Inc. is the only global source of data on the international credit union system (Table 1). These indicators demonstrate that credit unions continue to be a vibrant and growing presence around the globe, and continue to increase their influence and service to members. The number of credit unions, members served and market penetration indicate the movement's social impact in a particular country, while savings and loan figures help measure the degree to which those credit unions are serving members. The reserves and assets statistics help outline the relative stability of the institutions and their capacity to grow in the future (World Council of Credit Unions, 2014).

According to the World Council of Credit Unions, in 2014 the number of credit unions in the world and Europe amounted to 57.5 and 2.3 thousand respectively. The amount of credit unions assets has shown a steady growth in the world, while a decrease in the assets has been observed in Europe in 2011, i.e. by 2.8% compared with the previous year. The amount of attracted savings in the world has fluctuated in the middle of the period analysed, basically due to the world economic crisis consequences, while loans and reserves have ensured a steady growth throughout the whole period. The dynamics in figures for Europe do not coincide with the general assumptions on the consequences of the 2008 financial crisis. Here, as it is seen in Table 1, the figures have been fluctuating among the years and positions, for example, savings have grown in 2009, 2011 and 2013 compared with the previous periods, while the amounts of disbursed loans have decreased from 2008 to 2011 with a slight increase in 2012 and a following decrease from 2013. However, the largest amount of assets credit unions have accrued in 2014 equalling USD 1 7 92.94 billion.

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Table 1

World Council of Credit Unions: affiliated credit unions, members and financial resources in the world and Europe for 2008-2014

Year	Credit unions	Members in USD mln	Savings in USD bln	Loans in USD bln	Reserves in USD bln	Assets in USD bln	Pene-tration, %
2008							
world	53 689	185.80	995.74	847.06	115.32	1 193.81	7.70
Europe	2569	8.73	21.40	14.21	3.38	24.96	3.70
2009							
world	49 330	183.92	1 145.85	911.75	119.74	1 353.60	7.60
Europe	2 418	8.50	22.92	13.86	3.45	26.35	3.60
2010							
world	52 945	187.99	1 229.39	960.10	131.66	1 460.55	7.50
Europe	2 394	8.25	22.19	13.02	3.10	25.35	3.50
2011							
world	51 013	196.50	1 221.64	1 016.24	141.31	1 563.53	7.80
Europe	2 321	8.13	21.31	11.94	3.14	24.64	3.50
2012							
world	55 952	200.24	1 293.26	1 083.82	161.81	1 693.95	7.72
Europe	2 320	8.57	22.59	12.03	3.36	26.45	3.67
2013							
world	56 904	207.94	1 433.31	1 135.17	171.63	1 732.95	8.06
Europe	2 390	9.20	24.37	11.89	3.70	28.74	3.93
2014							
world	57 480	217.37	1 470. 86	1 202.04	181.45	1 792.94	8.20
Europe	2 318	8.26	22.46	10.41	3.23	26.36	3.40

Note: no more recent data than for the year 2014 are available

Source: World Council of Credit Unions, 2008-2014

The highest penetration rate is observed in 2014 (8.2% in the world) and 2013 (3.93% in Europe). The high penetration rate is explained by the existence of multiple memberships by adults in more than one credit union and/or by youth accounts. Penetration rate is calculated by dividing the total number of reported credit union members by the economically active population aged 15-64 years.

It is also worth analysing the worldwide spreading of credit unions and trying to juxtapose the number of credit unions, their assets, accumulated savings and disbursed loans. As McKillop and Wilson (2014) have stated "credit unions have survived and grown over many years and in many countries, demonstrating what can be achieved by a volunteer-led not-for-profit movement" (Figures 2 and 3).

According to the above figure, 24 552 credit unions or 43% were located in Asia, followed by Africa with 20 422 credit unions or 36%. However, the North America dominates in terms of total assets (79%) but it has only 4% of worldwide credit unions. Asia ranks the second with 10%. This means that the number of credit unions does not correlate with the size of total assets. Most often, the credit unions of Asia and Africa provide only basic savings and loans;

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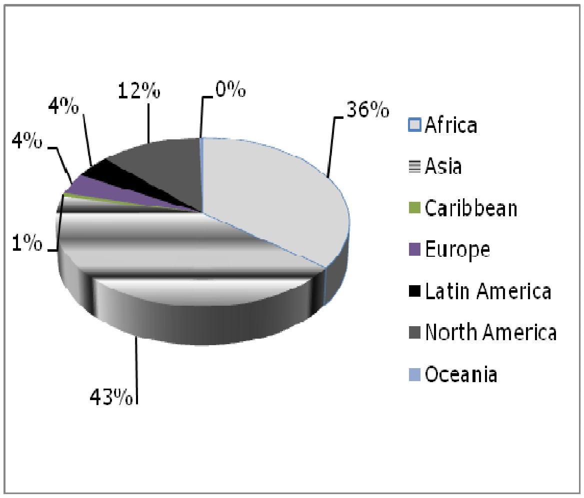
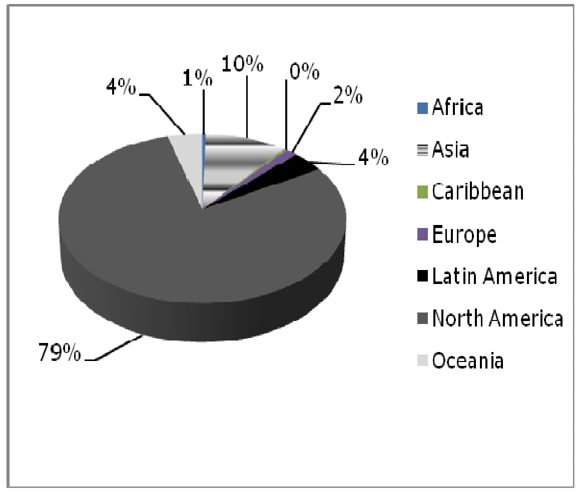
another reason is the vast territory of these geographic locations which explains the high number of credit unions there. In contrast, credit unions in the North America which are full-service financial providers, are staffed by paid employees, have hundreds of thousands of members and billions of dollars in assets (McKillop, Wilson 2014).



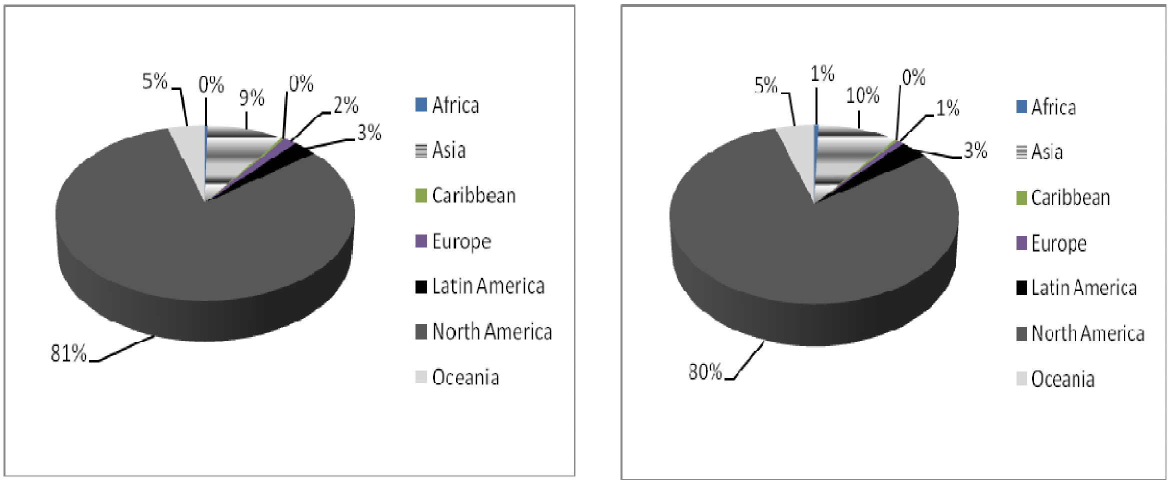


Source: author's construction based on the World Council of Credit Unions data, 2014

Fig. 2. **Number of credit unions and amount of assets by continents in 2014, %**

The comparison of savings and loans of credit unions over the world broken down by continents is presented in Figure 3.

The variation among the continents is very diverse ranging from 80-81% in the North America to less than 1% in the Caribbean countries and Africa. Again this percentage distribution shows that credit unions which are more legally and financially stable may attract more savings and provide more loans. In 2014, an essential variation is also observed in the loan-to-asset ratio which ranges from 34.49% in Europe to 79.21% in Africa. This may be explained by the close difference in the total assets and loans amounts. The WOCCU (2012) suggests that this ratio for an efficiently operating credit union should be 70-80%. Hence, only two continents – Africa and Oceania – fall within this range; even the North America with its 67.62% lags in qualifying for this criteria.

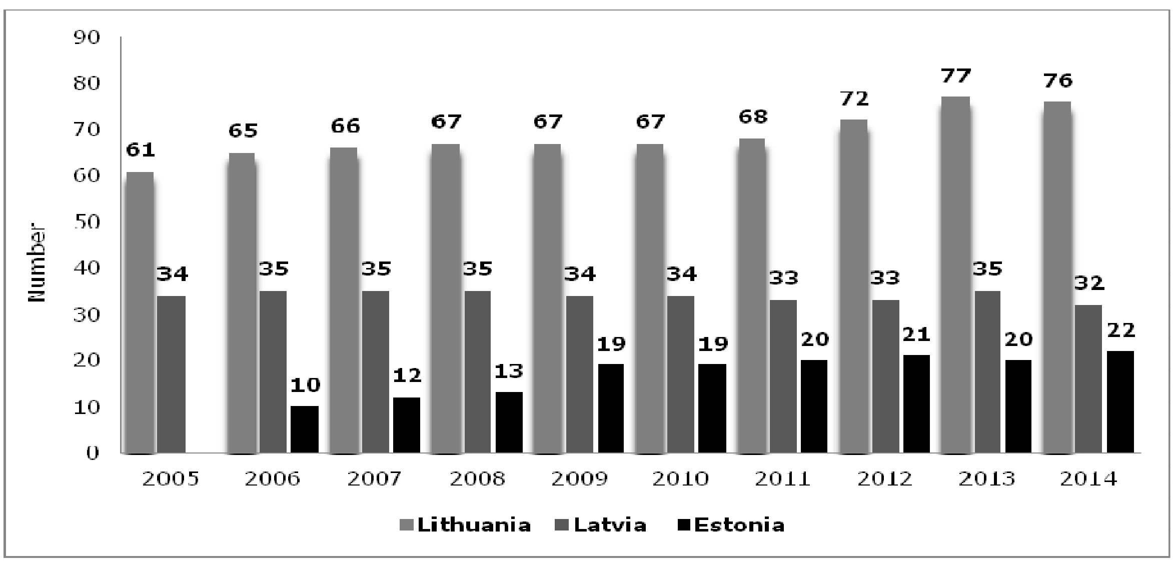


Source: author's construction based on the World Council of Credit Unions data, 2014

Fig. 3. **Attracted savings and disbursed loans by credit unions by continents in 2014, %**

3. Case study of credit unions in Latvia and Lithuania

In the Baltic States, credit unions resumed their activities and performance after these countries regained their independence. The first credit unions there were established in the middle of the 1990s and further on the movement of credit unions started to develop faster by reaching their peaks quite recently (Figure 4).



Source: author's construction based on the Bank of Lithuania, Financial and Capital Market Commission of Latvia, WOCCU, 2014

Fig. 4. **Number of credit unions in the Baltic States for the period 2005-2014**

Lithuania is the leader in terms of credit unions as it almost twice outpaces Latvia, while Estonia considerably lags behind. The number of credit unions has not changed significantly during the period 2005-2011, yet, an increase of 5.9-6.9% is observed in 2012 and 2013 followed by a slight decrease in 2014 (1.3% as one credit union became insolvent). In 2008, the number of credit unions increased to 67. This figure did not change till 2010 but starting from 2011, when establishment of credit unions started again, their number in Lithuania increased to even 77 as of the beginning of 2013.

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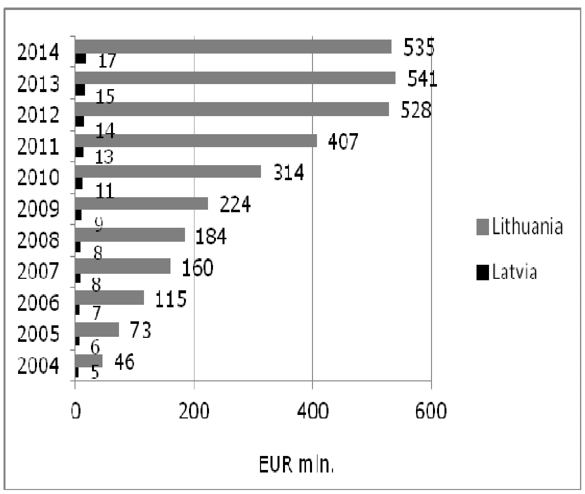
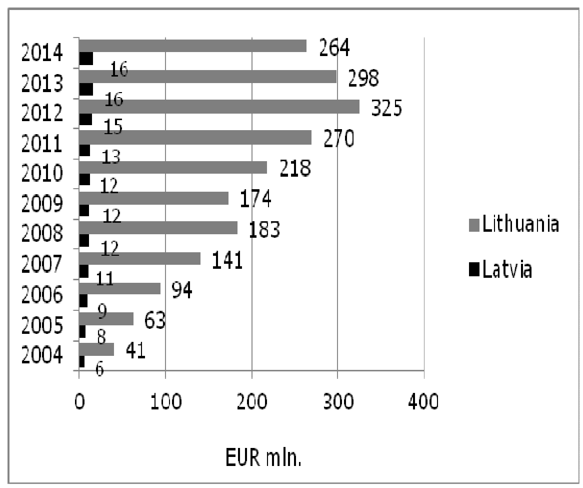
Lithuanian researchers have concluded that in Lithuania, credit unions are often seen operating as small banks but their current governance structure is insufficient for the control of arising risks and, consequently, puts at risk the long-term sustainability of the sector. The financial services provided by credit unions in Lithuania are not exceptional, though among certain customer segments (in particular outside the major cities) they complement the range of financial services available to residents, increasing competition in the market. While being smaller and more flexible, in some cases credit unions can better satisfy the economic needs of their members; however, they become exposed to increasing risk (Jaseviciene et al., 2014).

In Latvia, the activity of credit unions peaked in the years 2006-2008 due to the economic ascent period and again in 2013. Currently, 32 cooperative credit unions operate in Latvia, of which approximately 25 credit unions operate in rural territories. Estonia has the lowest number of credit unions, as only 22 of them operated there in 2014. The number of credit unions has grown steadily from 10 in 2006 to 22 in 2014 or about 5% per year, the only exception being the year 2013 when the number of credit unions declined by one.

Further the author has analysed the financial performance of credit unions only in Latvia and Lithuania, since no such data were available for Estonia (Figure 5).





Source: author's construction based on the Bank of Lithuania and Financial and Capital Market Commission of Latvia, 2014

Fig. 5. **Attracted savings and disbursed loans by credit unions in Latvia and Lithuania in the period 2004-2014, EUR mln**

The analysis of the amount of attracted savings reveals a significant increase in savings from 2009. The annual growth rate is approximately 30%, even a more rapid increase was observed at the beginning of the analysed period. The increase from 2009 might be explained with higher interest rates for deposits ensured by credit unions compared with commercial banks. The amount of savings has started to decline from 2013, thus, reaching a negative increase rate in 2014 (-1%). Stricter monitoring requirements introduced by the Central Bank of Lithuania followed by reduction of deposit rates may explain the decrease in the amount of deposits. Therefore, as the average deposit rates for standard deposits were 2.2% per year at the end of 2013, then a year later the interest rate for deposits was only 1.4% (Bank of Lithuania, 2014). The amount of disbursed loans has continuously grown between 2004 and 2008 with a decrease in 2009 by 5% compared with the previous year. The decline was observed due to the general deterioration of economic situation both in Lithuania and on external markets. The

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years 2010 and 2011 produce an expressed increase in crediting when total amount of loans disbursed to the members of Lithuania credit unions grew by EUR 44 million in 2010 and more than EUR 52 million in 2011 or by 25% and 24% respectively compared with the previous years. In 2010, the Lithuanian Ministry of Finance, Ministry of Social Security and Labour, and a guarantee institution, INVEGA, selected the Lithuanian Central Credit Unions and the consortium of 57 credit unions to allocate LTL 50 million by 2015. The objective was to create 1000 new jobs, grant 1200 loans to individuals or SMEs and to deliver business training for 5000 people (Lopriore, Pati, 2012). This was the basic reason for the increase in loan amounts. Though, recently the figures have declined in Lithuania.

In Latvia, the amount of savings and loans is small compared with Lithuania. In 2014, the profits of credit unions totalled EUR 340 thousand, which was down by 4% compared with the previous year when profits amounted to EUR 354 thousand. During the reporting period, the performance of 15 credit unions was a profit of EUR 387 thousand, whereas the total losses of the remaining 17 credit unions amounted to EUR 47 thousand (Annual Report..., 2014).

Credit unions have managed to preserve a stable increase related to attraction of savings and deposits. This means that the members trust credit unions and see the significance and convenience joining them. The year 2010 is reflected as the peak year for attracting deposits, as the increase totals 23.91% compared with the previous year. The reason here could be the overcoming of the 2008 crisis and resuming of business activities. The growth is stable also in the following years, yet the speed is maintained within the range of 7.85-11.9%.

The main type of activity of credit unions is granting loans to their own members. More rapid increase in the amount of disbursed loans is seen at the beginning of the period analysed and after 2011. If in 2010 the increase was only 1.67% compared with 2009, then the following years evidence an increase of 6.56% and 12.31%, respectively. However, in 2013 an opposite situation is observed and at the end of 2014 an increase is maintained only in the level of 1.89%.

Conclusions, proposals, recommendations

1) Credit unions are set up for specific groups of members, according to principles of territory, employment or mutual interests. A credit union is empowered to provide a range of financial services to its members, including receiving deposits and disbursing loans.

2) Credit unions are organised as non-profit credit institutions acting on the cooperative basis and providing services to their members. They are characterised by mutual support, democratic member control, voluntary, community-based, autonomy and independence and other the so-called Rochdale cooperative principles.

3) In many countries credit unions are operating at a loan-to-asset ratio which is much lower than the WOCCU guidance, even in the North America. This is due to intensified competition in the financial market, failure of credit unions in some countries to significantly embrace information technology and some other reasons.

4) The majority of credit unions are located in Asia and Africa; however, their performance ratios are much lower than those produced by credit unions in the North America.

5) Among the Baltic States, Lithuania is the leader in terms of credit unions as it almost twice outpaces Latvia, while Estonia considerably lags behind. In Lithuania, credit unions are often seen operating as small banks but their current governance structure is insufficient for the control of arising risks and, consequently, puts at risk the long-term sustainability of the sector.

6) In Latvia, credit unions have managed to preserve a stable increase related to attraction

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of savings and deposits. This means that the members trust credit unions and see the significance and convenience joining them. Similar conclusions may be drawn regarding the amount of disbursed loans. The basic reason for using credit unions as borrowers are the low interest rates.

7) The research hypothesis, namely that the performance indicators of credit unions do not always depend on the number of credit unions and their members, has been verified throughout the research.

8) Recommendations for improvement the activities of credit unions could be as follows: to strengthen the capacity of credit unions by uniting them in those which are more viable and loan-to-asset powerful.

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