CREDIT UNION DEVELOPMENT IN GHANA: COMPARATIVE ANALYSIS OF INSTITUTIONAL AND COMMUNITY BASED CREDIT UNIONS

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dx.doi.org/10.18374/JABE-20-4.2

ABSTRACT:

A major foundation for economic development is the existence of financial intermediaries capable of mobilizing local savings. Credit unions (CUs) play a significant role in the financial sector in this regard. The growth in the CU has been fairly stable though it has its challenges. In that respect, Institutional Credit Unions (ICUs) have shown significant growth in membership, savings, loans, assets, and shares compared with community based credit unions. This information necessitated examining the factors that undergird the fast growth of ICUs over that of the Community Credit Unions (CCUs). The financial statements of three institutional credit unions and three community based credit unions over a ten-year period were analyzed. Core management of the six credit unions was also interviewed in addition to five members from each of these credit unions. The factors most significant that elucidate the rapid growth of the ICUs compared to that of the CCUs were determined. The reasons for the exponential growth rate in membership, savings, loans, assets and shares are attributed to several factors. Notable amongst them was the existence of potential market, varied avenues for savings mobilization, performing loans, and attractive dividends. Recommendations were outlined to managers of CCUs on the reasons identified. These include diversifying the marketing strategies for recruiting members, providing multiple savings options, following due processes in loan acquisitions and paying yearly dividends however small.

Keywords: *credit union, members, savings, loans, assets, shares*

1. BACKGROUND TO THE STUDY

Credit Unions (CU) are financial co-operatives modeled in achieving the economic and social goals of its members. According to Stoffman (2017) credit unions play a critical role in the provision of financial services to millions around the globe. Mohanty (2006) indicated a large number of credit unions continue to serve an important purpose in our economy. They have focused on providing financial services to the less privileged and other moderate-income individuals based on common bond of membership. Khudoliy and Slesar (2019) again emphasized that credit unions as part of non-banking financial institutions, is an important tool for solving the social and economic challenges of the vulnerable in society. The financial cooperation movement is an important aspect of the social economy, as it contributes to the self-organization of people and the formation of civil society.

The first credit unions started in Germany about 1849 to find other means to solve problems with loan sharks. The credit union movement was founded to help the working class to access financial services at competitively low cost and to raise the standard of living. Historically CU membership has been based on a common bond of association, or a connection shared by savers and borrowers who belong to a specific community, organization, religion or place of employment. CUs pool their members' savings deposits and shares to finance their own loan portfolios rather than rely on outside capital. According to Mohanty (2006) members of a credit union share a common bond or a geographical community. This common bond includes one of the following three forms. They are (1) occupational bond that applies to employees of a firm; (2) an associational bond that applies to members of an association, and (3) a geographical bond that applies to individuals working, attending the same church or living within a defined community.