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Retooling Credit Unions: The Case Of Credit Union Association Of Ghana

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Abstract

The economic liberalization and the financial sector regulations introduced in Ghana held the view that a strong and competitive financial sector could make significant contributions towards increasing mobilization of domestic savings in Ghana. To cope with the new challenges, the Credit Union Association of Ghana (CUA) has introduced new policies and institutional mechanisms to transform the credit union movement to a new credit union model. It has also made great strides in the growth of its financial resources. However, CUA cannot be said to be operating as fully financially self-sufficient.

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Résumé

La libéralisation économique et les réglementations du secteur financier ont été introduites au Ghana sur la base du principe qu'un secteur financier solide et compétitif permettrait d'accroître la mobilisation de l'épargne domestique. Afin de faire face aux nouveaux défis de la libéralisation, l'Association des Caisses d'Epargne et de Crédit du Ghana a développé de nouvelles politiques et structures institutionnelles pour transformer le mouvement selon un nouveau modèle de Caisses d'Epargne et de Crédit. La croissance des ressources financières qui a résulté a été remarquable. Cependant, il ne peut être affirmé que l'Association soit complètement auto-suffisante financièrement.

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Executive Summary

A major objective of this study of Credit Unions in Ghana was to investigate the extent to which they have been able to adjust themselves to the new economic climate engendered by economic liberalization and the financial sector regulation in 1985.

Our interest in the study of the adjustment of Credit Unions to the new regulation and economic conditions in Ghana stems from their role as micro finance institutions (MFIs). The MFIs sector consists of a diverse group of non-bank financial institutions (NBFIs) and agents that have adopted innovative approaches to credit retailing. This has involved the use of specialized character based methodologies to provide financial service to low-income households, micro enterprises, small farmers, and others who lack access to the formal banking system.

In order to examine how Credit Unions have adjusted themselves to the new competitive environment, we explored the activities of the Credit Union Association of Ghana (CUA). This was done by investigating the structures and policies of the CUA as well as its operational strategies. Furthermore, we considered the sustainability of the CUA for over a period of five years. This was to enable us assess how the changes which have take place have improved its performance. Major findings of the study include the following

There was a trend toward moving the CUA toward a new credit union model, which is financially independent and competitive. This involved the introduction of new institutional policies, financial management disciplines, and credit administration, improvements in management information systems. There was also a considerable dependence on professionals to manage the affairs of CUA.

The study also showed that there has been some attempts made to restructure the Credit Union movement into a two tier system with a direct linkage between the primaries and the National Association (CUA). The primary credit unions have further been grouped into ten regional chapters. However, there has not been any indication of mergers among any of the credit unions.

The research also reviewed the operational strategies of the Credit Unions. There was the diversification of the products and services of CUA and the establishment of central services, such as the Central Finance Facility (CFF) and a risk management scheme, for the credit union movement. Although the CUA has made great strides in the growth of their financial resources, its operational costs are not able to cover their costs to make it self-sufficient.

In general, the findings of the study indicate that CUA is in the process of moving from the traditional model of co-operatives to a new model. This new model seeks to provide more autonomy of independence and a shift from shares to member deposits. There have also been considerable indicators of improvements in savings mobilisation, assets loans and institutional capital. However, the CUA cannot be said to be operating as fully financially self-sufficient.

1. Introduction

Over the past few decades the activities of Credit Unions in developing countries have gained considerable interest from development theorists and practitioners. The interest in Credit Unions stems from their role as Microfinance Institutions (MFIs). Microfinance Institutions may be defined as institutions which act as intermediaries between micro savers and borrowers as well as institutions which provide assistance to such intermediaries (see for example, Webster, 1996 and Steel 1998).

The MFIs financial sector consists of a diverse group of Non-Bank Financial Institutions (NBFIs) and agents that have adopted innovative approaches to credit retailing. This has involved the use of specialized character based methodologies to provide financial service to low-income households, micro enterprises, small farmers, and others who lack access to the formal banking system (see for example, Aryeetey, 1996).

In Ghana, quite an extensive study has been done on MFI's especially on their responses to the competitive market environment brought by the economic recovery program and the financial sector liberalization program introduced in 1985 by the Ghana Government. In general, these policies held the view that a strong and competitive financial sector could make significant contributions towards increasing mobilization of domestic savings currently held in the form of non-financial assets.

For instance, Aryeetey (1996) and Aryeetey et. al. (1994) have examined the innovative strategies and structures the microfinance institutions have put into place in order to provide access to funds for onlending to the poor and the small and medium scale enterprises. Whilst those studies provide an invaluable source of information on the responses of the MFI's to the new economic environment, little attention has been paid to the special nature of Credit Unions as co-operative credit institutions.

Co-operatives are organizations owned and managed by their members who are also themselves the patrons. In co-operatives, all members whatever the level of their skills or level of contributions to the resources of the organization have an equal right to participate in decision making. In co-operative theory it is anticipated that members' participation would lead to their overall control over the affairs of their organization. This would then ensure that they are able to set the goals and determine the direction of its operations in order that the prime objective of co-operatives, namely; the promotion of member's interest is realized. Hence, co-operative institutions have been described as self-managed and democratic organizations (see for example Rosner, 1983 and Henzler, 1962).

The nature of Credit Unions as a co-operative credit institution, therefore, sets them apart from other microfinance institutions, which may operate as privately owned institutions or adhere to other rules and norms. This requires that any study of how Credit Unions respond to the new macro economic environment in Ghana should take into account their special nature as democratic self managed enterprises. This leads us to two major questions that have been the major concern of co-operative theorists (see for example, Mellor et. al., 1988). Is the pursuit of democratic control and competitive efficiency incompatible? Can Credit Unions grow rich, strong, influential and yet remain subject to democratic management?

The issues raised above are significant since they touch on the ability of Credit Unions to adjust to the new competitive environment given their structural forms and management practices. The research reported here examines the strategies adopted by

Credit Union Association of Ghana (CUA) as a response to its new economic environment. The CUA is our primary focus of study because a key strategy of the Credit Union movement in Ghana has been to strengthen the operations of CUA and through it facilitate the development of primary Credit Unions in Ghana (WOCCU/ACCOSCA, 1995). The research also investigates its sustainability and the organizational arrangements put into place to support the primary Credit Unions. It is anticipated that the Credit Unions as economic institutions, will be organized with particular structure, resources and operational techniques best suited to reaching their objectives.

The rest of the study is organized as follows. In Chapter Two, we review literature on experiences of the development of Credit Unions. Chapter Three gives a profile of the Credit Unions in Ghana. The methodology for the research study is discussed in Chapter Four. Chapter Five examines the operational strategies adopted by the CUA. In Chapter Six, we examine the sustainability and self-sufficiency of the CUA. The governance and organizational system adopted by CUA is considered in Chapter Seven. Finally, Chapter Eight presents the conclusions and recommendations of the study.

2. Theoretical Perspectives on the Development of Credit Unions

Though the study of Credit Unions has gained widespread attention, there is still a conspicuous absence of a common framework for its study (see for example, Richardson et. al., 1993). In spite of this, the organizational character of Credit Unions as co-operatives us with the conceptual tools to conduct a fruitful analysis of the pattern of development found in them.

2.1. Co-operatives and Market Economies

The ways and means co-operatives institutions have managed to adjust to their environment have engaged the attention of co-operative theorists since their emergence of these organizations. In general, it has been observed that developments in the market economies of Western Europe have set new imperatives for the development of co-operative institutions. (see for example, Holmen, 1990) As capitalism matured and market conditions changed, co-operative enterprises were forced to adjust to their compelling demands. The presumed character of co-operatives as an organization based on the common bond and mutual aid between members gave way to legal rational relations. Co-operatives gradually accepted the existing private-capitalist market economy and conceived themselves as merely corrective institutions within it (see for example, Mellor et. al., 1988). Young et. al. (1981, p.8) have described the co-operative experiences in market economies as follows:

"A life cycle is clearly discernible in the well-established co-operatives of the industrial world. In the beginning, a burst of moral energy was captured by the new institutions. Participation in the early phase was high: mundane execution of economic tasks is invested with purpose. However, once successfully launched, the very effectiveness of the co-operatives in filling an economic niche creates a new set of imperatives. To survive the co-operative must become efficient…. While co-operatives are an ethos, efficiency is an incubator of technocracy. …The implications of this simple fact are many. As co-operatives achieved a certain scale, they could no longer be directly managed by their members, but had to hire specialized management staff. Armed with the efficiency criterion, the managerial cadres tended to enlarge their role, while representative organs of the co-operatives tended to atrophy; the 'iron law of oligarchy', detected by Robert Michel's in labor unions and socialist parties had its analogues in the co-operatives. As co-operatives became institutionalized, they became primarily economic agencies operated by specialists as managers under the discipline of the market, with effective member participation only a residual phenomenon, and the matrix of co-operative principles a mere theoretical penumbra."

2.2. Trends in the Development of Credit Unions

The observations on co-operative development show how market conditions have led to changes in the development of co-operatives. In Credit Unions, in particular, similar development trends and problems can be observed. These include:

- Credit co-operatives start as local institutions operating in a given community or radius. At this stage the organizational principle is based on the common bond between members. This common bond is based on parish, community, occupation and ethnic membership. Business at this stage is strictly membership trading. At this stage the Credit Union is highly competitive, because members offer voluntary services and are highly motivated (see for example, May, 1983).
- A further stage in the development of the Credit Unions is the interaction between primary Credit Unions. This is the basis for developing secondary or tertiary Credit Union organizations. Through this a central fund is set up and co-operation with other institutions is further developed (see for example, Kirsch and Goricke, 1977).
- Another growth pressure is the decision as to the type of business in which to engage. In Canada for instance, the credit co-operatives had to decide to stay as savings and loans institutions with only membership trading and limited services or as financial institutions providing full financial services. This was because of strong competition from other financial institutions (Jordan 1980).

McKillop et. al. (1997) have also chronicled a three-stage Credit Union industry development. According to them, Credit Unions move through three industry stages of development "nascent" through "transitional" and finally to a "mature" stage of development.

The nascent industry represents a stage of development in which Credit Unions are seen as self-help organizations. Hence, they are not just financial oriented but organizations with a strong social purpose. Key attributes of this stage include, small asset size, tight common bond between members and emphasis on voluntarism.

Transition Credit Union industries mark the stage in which the seeds of change within Credit Unions are sown. The characteristics of the industry show a relaxation of co-operative philosophy and ideals. This is caused by the need to achieve cost efficiencies and scale economies owing to asset growth and competition in the market.

The mature stage brings to an end the development path of Credit Unions. According to McKillop et. al. (1997), the key attributes of this stage indicate a Credit Union with large asset size and a less restrictive interpretation of the common bond requirement for members. There is a trend toward a well organized central services and diversification of products, professionalism of management instead of voluntarism. Though membership continues to grow, there are fewer Credit Unions due to mergers. There is tendency for Credit Unions to adopt the features of the main stream financial institutions.

The discussions above illustrate the dynamics of change within Credit Unions. Key changes in the Credit Unions have basically involved transformation of their ideological and institutional nature. For instance, Credit Unions have become more business oriented and common bond restrictions of members have been relaxed. Furthermore, the voluntary principle has been given up and professionals have been employed to manage the Credit Unions. There has also been a change in their operational strategies. The diversification of products and services as well as the establishment of central services shows this. In their attempts to compete more effectively in their environments, it has become obligatory for Credit Unions to take on the features of mainstream financial institutions.

These changes have posed certain problems for Credit Unions. For instance, increases in the size of members means greater financial strength, however, there is a corresponding increase in expenses vis a vis in administrative costs and transaction costs. Growth into other services lead to professionalisation of the employees and management. This becomes necessary because financial institutions require the application of scientific methods for decision-making.

The development from primary Credit Unions to the formation of tertiary or national associations can also have implications on the democratic character of Credit Unions. For instance, Furstenburg (1983) has pointed out that increases in the size leads to a greater division of labor and role specialization. Furthermore, it brings about structural problems in self-managed and democratic organizations. This is because a greater division of labor will lead to new forms of authority systems and the creation of status differences. This will eventually affect the level of membership participation and democratic management.

The observations made above suggest key factors for the study of Credit Unions in Ghana. It is argued that for the Credit Unions in Ghana to be competitive and continue serving the low-income members, they need to develop operational strategies and adopt structural forms to meet the challenges of their environment. These changes in turn will promote the sustainability of individual Credit Unions.

3. Development and Present Status of the Credit Union Movement in Ghana

The previous section illustrated the dynamics of changes in Credit Unions. In this section we report on development of the Credit Unions movement and the key challenges facing in Ghana.

3.1. Present Status of the Credit Union Movement in Ghana

The first Credit Union in Ghana was established in 1955 at Jirapa in the northwestern part of Ghana in 1955. This Credit Union was founded in a parish community and promoted by missionaries (see for example, Kirsch and Goricke, 1977). Eventually, teachers and trade unionists took on the role of promoters and spread the Credit Unions to other communities and work places in the southern regions of Ghana. As the Credit Unions expanded from the north towards the south, the membership structure changed from parish members to wage earners.

By 1974, at the time of Kirsch and Goricke (1977)'s study, the Credit Unions in Ghana numbered 417 with more than 53,000 members. The different types of Credit Unions were divided up as follows:

- Community type: 32 per cent
- Workplace: 60 per cent
- Parish type: 6.6 per cent

From statistics available at CUA (see for example, CUA, 1999), the total number of Credit Union societies by 1999 was 149 with a total memebership of 63,379. Table 1 contains the distribution of types of Credit Unions according to the ten regions of Ghana.

Table 1: Types of Credit Unions as at June 1999

Regions	Total No.	Occupational	%	Community	%	Parish	%
Greater Accra	60	45	75	12	20	3	5
Eastern	18	12	67	5	27	1	6
Western	18	11	61	6	33	1	6
Brong Ahafo	24	9	38	7	29	8	33
Ashanti	27	11	41	8	29	8	30
Central	26	19	73	5	19	2	8
Northern	5	3	60	1	20	1	20
Upper West	15	2	13	8	53	5	34
Upper East	12	5	42	7	58	0	0
Volta	11	9	82	2	18	0	0
Total	214	126	59	61	28	29	13

Source: Compiled from CUA Records

The various types of Credit Union shown in the table are as follows:

- Workplace: 59 per cent
- Community: 28 per cent
- Parish: 13 per cent

A greater percentage of the Workplace Credit Unions are found in the Southern and Coastal regions of Ghana, mainly Greater Accra, Eastern, Western and the Central Regions. The Community and Parish Credit Unions are predominant in the northern part of the country. This distribution shows that the growth pattern of Credit Unions in Ghana has not changed very much. The workplace type still dominates the number of Credit Unions in the country. Whilst the number of Credit Unions has reduced by 62 percent in the last 25 years, membership has gone up by 20 percent. In general, it can be observed that there has been an increase in the average number of members per Credit Union, from 127 in 1974 to 425 in 1999. This shows that Credit Unions in Ghana have grown in membership.

3.2. Challenges of the Economic Liberalization and the Financial Sector Regulation

Recent developments in Ghana's economy since the introduction of the economic liberalization program in 1985 have posed some challenges to the Credit Unions. This comes especially from competition from other financial institutions and increasing demand for improved financial services (e.g. automation).

The financial sector in Ghana, like most developing countries was also fragmented in terms of different institutions using diverse methods to serve varied clients. This resulted in the emergence of formal and informal segments in the financial sector. Fragmentation also implied that the different market segments approached problems of poor information, high transaction costs, risk management, mobilization of funds, grants and capitalization differently (Steel, 1998).

Competition from financial institutions come especially from Microfinance institutions (MFI). The cumbersome features of formal finanacial instituions in the delivery of credit and lending procedures have led to the development and growth of a considerable number of MFI's. These microfinance institutions, mostly Rotating and Credit Associations (ROSCAs), mobile informal banking (Susu clubs) and Savings and Loans societies, like the Credit Unions have adopted innovative strategies through the use of informal methodologies based on personal relations, family connections or knowledge and business relations for providing easier loans. For instance, research has shown that people patronize these microfinance institutions for a number of reasons (see for example, Aryeetey et al., 1994). Among these reasons are:

- Flexibility and adaptability of their services to the needs and work patterns of the rural and urban poor. Such customers normally lack access to instituionalized banking because of their small deposits and their lack of collateral.

- Person to person contact between Susu collectors and client ensures confidentiality in the financial transaction.
- Opportunity is provided for individuals to save small amounts which can be accumulated as start up capital

In general, customers are price sensitive to banking services. They demand low interests for credit, convenient location and wide range of services. This has encouraged vigorous competition in the baking industry. For Credit Unions to be competitive, they need to operate at low cost. This requires operational efficiency and scope economics. Further more, they would also need to combine effective product and service differentiation with low cost operation.

3.3. The African Credit Union Revitalization Program and the Credit Union Movement

To help the Credit Unions meet the challenges in the Ghanaian economy; the World Council of Credit Unions (WOCCU) initiated a Revitalization Program to strengthen them in 1996 them in 1996 (see for example, WOCCU/ACCOSCA, 1995). The major objective of this program was to help Credit Unions in Ghana to become competitive, financially independent, secure in capitalization and economically viable. WOCCU's African Revitalization Program funded by USAID follows the new model of Credit Unions introduced in Latin America. This involved a change from the traditional model of Credit Union to a new model to make the Credit Unions more competitive and sustainable (see for example Richardson et. al., 1993).

The traditional credit union model

The traditional model discouraged savings, encouraged borrowings and forced those who saved to subsidize those who borrowed. Members who deposited shares in their

Credit Unions often could not withdraw the shares until they terminated their membership and they received no yield on their shares. The amount of a loan that could be obtained was dependent on the number of shares, which was held in savings. The result of these polices and practices, was a chronic shortage of loanable funds (see for example Richardson et. al., 1993)

The new credit union model

The cornerstone of the new model was the gradual reduction of the traditional reliance on member shares for capital and member deposits. This new market -oriented model represents a radical departure from the policies of the past. In general, the new model necessitated the following changes in the traditional model (see for example Richardson et. al., 1993):

- A shift from deposit savings to share savings.
- Shift to market rates on loans.
- Shift to capitalization of earnings.
- Shift to repayment-based credit analysis.
- A shift to market-based, results-oriented business planning.
- A shift to improved financial information reporting control and evaluation.

A number of key policies were attached to the new Credit Union model. They included (see for example, Almeyda and Branch, 1998):

- Competitive pricing for savings and loans.
- Intensive mobilization of savings.
- Maintenance of adequate liquidity to satisfy unanticipated withdrawals of savings.
- Application of new lending criteria centered around capacity-to-pay analyses, credit history and available collateral.
- Creation of loan/loss reserves in relation to delinquency.
- Reduction of non productive assets.

- Capitalization of all net earnings.
- Use of marketing programs to improve public image.

In Latin America where this new model was first implemented Credit Unions began to pay market rates of interest on deposits. They also raised interest rates on loans to cover the costs of the savings mobilization programs. The Credit Unions also decided to pay dividends on share capital much like the interest paid on savings deposits (Almeyda and Branch, 1997).

In Ghana, the new model required Credit Unions to adopt new institutional policies, financial management discipline, and credit administration In Ghana, This included the introduction of financial management disciplines such as capital accumulation, loan delinquency control, loan loss provision and liquidity management (see for example, WOCCU/ACCOSCA 1995). The Role of the Credit Union Association of Ghana (CUA) was to serve as a financial intermediary of affiliated Credit Unions. It was also to bring about economic and administrative strengthening of affiliated

3.4. Summary

This chapter discussed the development of Credit Unions in Ghana. It showed that even though the number of Credit Unions has reduced for the past 25 years, membership had gone up by 25 per cent. It indicated that the biggest challenge facing the Credit Unions is competition from other micro finance institutions, which are serving similar customers by using the same banking methodologies. To survive the current competition and develop an independent and sustainable Credit Union movement, CUA, the mother association has adopted new policies to strengthen itself in order to develop the Credit Union movement.

4. Method of Investigation

4.1. Methodological Considerations

To study the responses of CUA to the challenges in the environment, we adopted three key indicators of change in Credit Unions, which were observed in our literature review. These were the operational strategies and the system of governance and organizational structure. In order to be able to establish the competitive efficiency and performance of CUA we also examined its sustainability.

The operational strategies of the credit unions: **Our key objective was to analyze operational strategies adopted to mobilize funds and increase access of their members to on-lending funds. Following Aryeetey (1996) and Webster (1996), two major indicators were used to assess the operational strategies of the Credit Unions, namely; the mix of programs offered by CUA and the methodologies for providing services to members.**

- Mix of Programs

This is concerned with the products and services of the Credit Unions and includes financial and non-financial services.

- Methodologies

Methodologies describe the principles for designing financial services. It is about CUA's approach to the problems of poor information, high transaction costs, repayment (when legal contracts enforcement mechanisms are lacking, how to give incentives to repay) risk management and sources of funds (savings mobilization, grants, credit lines and capitalization). The information on methodologies was categorized into formal bank methodologies and informal methodologies. *Formal Bank Methodologies:* Banks use several techniques to pre-screen clients and concentrate on relatively few large transactions. They include; feasibility studies, collateral, track record and minimum deposits. *Informal Methodologies:* Include personal relations, family connections or knowledge of business relations.

Governance and organizational structure: In general, co-operate governance is about managing top management- building in checks and balances to ensure that senior executives pursue strategies that are in accordance with the corporate mission (see for example, Conforth, 2001). The organizational structure, on the other hand, is concerned with the ways activities in CUA are divided up, organized and coordinated. Our objective was to ascertain how new policies; structures and financial discipline have been put into place to meet the challenges of the new environment. We were also concerned with the following dimensions of structure:

- Vertical linkages: the extent of linkages between the National Association (CUA) and the primary Credit Unions.
- Horizontal linkages: the level of interaction between the primary Credit Unions.

Sustainability of CUA: The sustainability of CUA was measured by its financial performance and operational self-efficiency.

4.1.1. Financial Performance

In assessing the financial performance of CUA we adopted the World Council of Credit Union (WOCCU's) unique Credit Union monitoring and rating system called PEARLS (see for example, Richardson, 1997).

This has a set of six basic indicators for measuring financial performance. They include:

P=Protection. Indicators of protection measure the adequacy of the Credit Union's provision for delinquent loans.

E=Effective financial structure. Effective financial structure measures assets, liabilities and capital and recommends an "ideal" structure for savings and loans. This is the most important factor in determining growth potential, earnings capacity and overall financial strength.

A=Asset quality. Asset quality is a non-productive or non-earnings asset, which does not generate income. An excess of non-productive assets affects savings and loans earnings in a negative way. The indicators for measuring asset quality therefore measure the impact of assets, which do not generate income e.g., delinquency loan rates, non-earning assets, and the financing of non-earning assets.

R=Rates of return and costs. These are aggregates of all essential net earnings to help management calculate investment yields and evaluate operating costs. The indicators help measure average income yield for each of the most productive assets of the balance sheet. In addition, they measure the average cost yield for each of the most important liability and capital accounts. The results indicate whether the Credit Union is earning and paying entrepreneurial rates on its assets, liabilities and capital.

L = Liquidity: Liquidity indicates whether the Credit Union is administering its cash so that it can meet deposit withdrawal requests and liquidity reserve requirements, while at the same time, minimizing the amount of idle funds that earn no economic returns.

S = Signs of growth: Growth is measured by the percentage change between current and previous year performances for total assets, loans, deposits, external credit, shares, institutional capital and members.

The PEARLS Evaluation System is a very efficient and effective tool for monitoring the progress of Credit Unions. Hence, it helps to monitor efficiency and profitability in the Credit Unions. The system enabled us to analyze CUA's operations, growth rates and evaluate the financial structure of the balance sheets. Appendix 1 provides a key to the PEARLS rating systems instructions. Information on the pearls systems was collected from the annual balance sheets of the Credit Unions.

4.1.2. Institutional self-sufficiency

Institutional self-sufficiency is an indication of the long run capacity of CUA to deliver services to the Credit Unions in Ghana. The assumption of this measure is that in the long run the capacity of a Credit Union to deliver services will depend on its ability to generate enough funds to cover operating and financial costs. Two key indicators (see for example, Webster, 1996) assessed this. They are

- The ratio of operating income to operating and financial expenses and
- The ratio of operating expenses (administrative and bad debt provisions) to average outstanding loans

4.2. Methods of Data Collection

Information on operational strategies and governance and structure of CUA was collected through the administration of standardized questionnaire to the management personnel of the Credit Unions. This was complemented by a study of documents such as reports on special meetings and biennial conference of the Credit Union movement. To gain a first hand information on the decision-making and democratic processes of the Credit Union movement, we attended the biennial delegates conference of 1999.

Studying how organizations adjust to their environments demands observations of change over time. This is because the development of policies, operational strategies and the realization of certain objectives take time to mature. For this reason, data on the financial performance was collected to cover a period of five years, 1995 to 1999, to enable us monitor the performance of CUA and establish its pattern of development.

It is essential here to note some limitations of the methodology adopted for the study. Firstly, the concepts adopted here to measure the processes of CUA's adjustment to their environment is based on our theoretical understanding of the features of Credit Unions assumed to lead to certain changes as discussed in our literature review. Incomplete knowledge of these features can affect the internal validity of our findings. It is possible that other studies using different features or indicators can arrive at different conclusions. Another source of threat to our findings is the adoption of the PEARLS indicators for our analysis. Although it provides a standardized and comparative approach to our analysis, insufficient information from the balance sheets of CUA did not allow us conduct an analysis of all its indicators. We were therefore not able to fully establish the relationships between the indicators.

5. Operational Strategies of the Credit Union Association (CUA)

Our review of the literature showed that the development of an appropriate operational strategy is essential for Credit Unions. This is to be enable them to adjust to the new economic environment and gain a sustainable competitive advantage in the financial industry. That is a sustained superior profits compared to rivals.

CUA as the apex body of the Credit Union movement offers two main categories of services to primary societies. These are Operational/Technical and Financial services. The financial services include savings and loans services. CUA's services are tailored to specific needs of member societies. This section reports on CUA’s operational strategies for the development of the Credit Union Movement in Ghana.

5.1. Savings Service at CUA

At CUA, a key strategy for improving savings mobilization was the establishment of the Central Finance Facility (CFF). The main purpose of CFF is to protect Credit Unions against large unanticipated withdrawals of cash by providing them acess to short term, emergency liquidity loans. It is also to provide high yields on short term liquidity deposits by member Credit Unions, inter-system funds and rapid information on interest rate fluctuations (CUA, 1999). Through the CCF, the CUA has therefore become a depositary of the savings of primary societies.

The CFF has been established as a special department within CUA. The CFF is managed by a committee charged with the responsibility for granting or rejection of loans to members. Credit Unions invest a minimum amount of three hundred thousand Cedis (¢300,000) into a savings account with the CFF before being qualified for full membership privileges. This amount constitutes the limit of liability to which the CFF member society is held responsible for debts of the CFF at any time.

In addition to the initial deposits, member societies make regular savings and investments. Such savings are expected to be equal to five percent of the society’s total savings, as per their last audited financial statements. The pattern of savings in the fund is as follows: Monthly - fixed amount; monthly - non fixed amount; irregular savings; and, yearly savings – the amount depends on the net income for the year.

The following regulations apply to savings and investments in the CFF (see for example CUA Model Bylaws):

- Only approved member societies may deposit their funds with CUA Central Finance Facility in a savings or investment account; and
- Interest is payable on savings and investment accounts semi-annually at a rate to be determined by the CFF from time to time and as specified in Article VI, Section 7, (f) of the Regulations (CUA Bye Laws). Interest rates shall be comparable to the rates that would be paid for a similar type of investment in the banking system.

Table 2 below illustrates the growth in the major performance areas in the CFF for the three years ended 31st December 1999.

Table 2: CUA Central Finance Facility

	1997	1998		1999	
	Amount	**Amount**	**% Change**	**Amount**	**% Change**
Share	15.8m	22.4	41	38.1	70
Savings	345.3m	455.7	31.9	669.5	46
Statutory Reserve Deposits	168.1m	286.8	70	432.2 m	50
Total Assets	604.1m	843.1m	39	1.2 b	42
Loans Outstanding	78.4m	90.9	15	78	(14)

Source: CUA Annual Reports

Table 2 presents the performance of CFF over the past 3 years. In 1997, the Central Finance Facility, CFF had shares of 15.8 million Cedis which increased by 42% to 22.4 million Cedis in 1998. By 1999 shares amounted to 38.1 million Cedis, a percentage increase of 70. Members' savings with CUA Central Finance Facility was 345.3 million Cedis in 1997, which accelerated to 455.7 million Cedis, representing 31.9 percent increase. In 1999 savings hit a figure of 669. 5 million Cedis, a percentage increase of 46. Statutory Reserve's figure for 1997 was 168.1 million Cedis, which increased by 70% to reach 286.8 million in 1998. By 1999 these reserves reached 432.2 million Cedis, with a percentage change of 50 over the 1998 figure. From Table 2, total assets amounted to 604.1 million Cedis in 1997. This increased by 39% to 843.1 million Cedis in 1998, while by 1999 the figure was 1.2 billion Cedis, a 42% change.

Loans outstanding represent the amount of loans given out and standing in the books. Loans outstanding in 1997 were 78.4 million Cedis while for 1998 it recorded 90.9 million Cedis, a percentage increase of 15%. The figure dropped to 78 million in 1999, representing negative 14%. In spite of the fluctuations in savings mobilization by CFF, the Table 2 shows that the introduction of CFF has provided enough funds for on lending to the primary Credit Unions, which may not have enough loanable funds for members.

5.2. CUA Lending Performance

In this section we look at how CFF has enabled CUA to provide funds for on lending. Table 3 shows the lending outreach of CUA.

Table 3: CUA Lending Performance Outreach

CUA	1995	1996	1997	1998	1999
Number of Members	228	230	200	200	214
(Annual Growth)	12%	1%	(13%)	0%	7%
No. of Loans Disbursed	-	-	-	-	-
Value of Loans Disbursed (¢)	93.5m	69.7m	88m	90.9m	78.0m
Annual Growth	70%	(25%)	25%	3%	(14%)
Value of Loans Disbursed	-	-	-	-	-
No of Loans Outstanding (US $)	-	-	-	-	-
(Annual Growth)	-	-	-	-	-
Value of Outstanding Portfolio (¢)	93.5m	69.7m	78,4m	90.9m	78.0m
Value of Outstanding Portfolio ($)	-	-	-	-	-
Value of Average Outstanding Portfolio	410087	303043	392000	454500	364486
Average Growth	94%	26%	29%	16%	(20%)

Source: Author

Value of loans disbursed

In 1995, 93.5 million Cedis worth of loans were disbursed representing 70% increase over 1994. However, this performance dropped to 69.7 million Cedis in 1996, a decrease of 25%. The figure however, shot up to 88million Cedis in 1997, a positive change of 26%. In 1998, a modest increase of 3% was achieved to bring the disbursed loan figure to 90.9 million Cedis. This performance however fell by 14% to 78 million Cedis in 1999.

Value of average outstanding loan portfolio

This average is made up of current and previous year's figures summed up and divided by two. The figure for 1995 was four hundred and ten thousand Cedis and dropped by 26% to three hundred thousand Cedis in 1996. It made a recovery of 29% to reach 39 million in 1997 and further grew in performance in 1998 with a modest increase of 16%. This however, fell by a 20% margin to three hundred and sixty four thousand Cedis in 1999.

Lending rates by the Commercial Banks range from 40-45% per annum. Interest paid by CUA for societies' statutory reserves, 12% in 1999 and a projected figure of 15% for the years 2000 and 2001 are not competitive enough. CUA should endeavor to raise the figure to compensate the societies of the opportunity cost of keeping their funds at the CFF.

Risk management at CUA

In addition the lending activities, CUA offers a risk management program to the Credit Unions. Under the program, members shares, savings, loans, are insured against death or permanent disability of a member. By paying small monthly premiums on behalf of the members, a Credit Union saves their members from causing financial embarrassment. This was introduced to protect Credit Unions and their members against inevitable financial losses that they suffer when a Credit Union Member defaults in loan repayment.

5.3. Operational / Technical Services by CUA

The operational and technical services offered by CUA include the following:

- Audit Service
- Individual Primary Development Planning (IPDP)
- Society Based Seminars

- Residential / Non-Residential Seminars
- Computing Services
- Advisory

It is a legal requirement for every Credit Union to have its books of accounts audited at least once a year. CUA ensures this by maintaining an audit department. The IPDP is an annual business plan development by individual Credit Union with technical assistance from CUA officers. Credit Union business plans are focused on the achievement of specific goals and accomplishment of specific activities.

CUA also runs seminars for primary societies that have identified a training need for any of the committees, individual members or staff. This often occurs when CUA is approached for assistance in addressing a particular need. Where CUA identifies a training need for the entire movement or in a particular area, a number of Credit Unions are brought together to participate in such seminars. This can either be residential or non-residential depending on a number of factors.

The national association has fully computerized its system of operation and offers primary societies a uniform accounting software that has been tried and tested and has room for expansion. On supervision, on-site technical assistance is offered to primary societies while necessary control are enforced to ensure compliance with laid down policies and procedures. Moreover, CUA offers expanded advisory services in the fields of employment, personnel, salaries/wages, image building, investment opportunities, etc.

5.4. Summary

A key objective of this part of the research was to examine the operational strategies of CUA, the national association of the credit union movement in Ghana. CUA has adopted three strategies to improve the performance of the credit union movement. They include: the diversification of the products and services of CUA, the establishment of central services such as the Central Finance Facility (CFF) and a risk management scheme for the Credit Union movement. These indicate an attempt to integrate the activities of the Credit Unions in Ghana and provide a central pool for funds for on lending.

6. Sustainability of the CUA

The past sections of this study have examined the ways and means the Credit Union movement in Ghana has sought to adjust itself to the changing economic environment in Ghana. Through the adoption of the new policy framework from the World Council of Credit Unions (WOCCU), a new Credit Union model was designed to help Credit Unions become more competitive and financially independent. The pivotal instrument in this effort, as we pointed earlier was the Credit Union Association of Ghana. A major objective of this section, therefore, is to find out the cumulative effect of the financial disciplines and the operational strategies on the sustainability of CUA. Sustainability was measured by studying the financial performance and operational efficiency of CUA.

6.1. The Financial Performance of the CUA

As a measurement tool for the financial performance of CUA we used the PEARL monitoring and evaluating system. PEARLS has a set of basic indicators in six key areas: Protection, Effective Financial Structure, Asset Quality, Rates of return and Costs, Liquidity, and Signs of Growth. For each indicator we collected data from the balance sheets of CUA from 1995 to 1999. (See chapter 4 and Appendix 1 for descriptions and ratios for the calculations in the Tables below) The findings of the study are given below. The measure of performance improvement in CUA was based on the ideal targets set by the World Council of Credit Unions (WOCCU) for the analysis of the sustainability of Credit Unions.

Protection

Protection assesses the adequacy of CUA's provisions for loan losses. Protection is deemed adequate if a Credit Union has sufficient provisions to cover 100% of all loans delinquent for more than 12 months and 35% of all loans delinquent for 1 - 12 months. There was not enough information to measure Protection.

Effective financial structure

Effective Financial Structure is the most important factor in determining the growth potential, earnings capacity and overall financial strength Credit Unions. It measures assets, liabilities and capital and recommends an "ideal" structure for savings and loans. Credit Unions are encouraged to maximize productive assets as the means to achieve sufficient earnings.

Table 4 below shows the percentage of total assets financed by loans, financial investments, members' deposits, shares and institutional capital.

Table 4: Financial Structure of CUA (1995 – 1999)

EFFECTIVE FINANCIAL STRUCTURE	1995	1996	1997	1988	1999
Loans/Total Assets	16.4%	7.3%	5.7%	4.4%	2.9%
Liquid Instruments/Total Assets	N/A	N/A	N/A	N/A	N/A
Financial Investments / Total Assets	33.9%	37.9%	30.4%	48%	60.6%
Deposits/Total Assets	20.8%	13.3%	18.4%	17.8%	21.1%
External Credit / Total Assets	N/A	N/A	N/A	N/A	
Shares/Total Assets	1.5%	0.9%	0.8%	0.9%	1.20%
Institutional Capital/Total assets	22.1%	26.9%	31.2%	30.2%	38.6%

Table 4 shows that the percentage of total assets invested in the loans portfolio as 2.9%. Since the loan portfolio is the most profitable asset of Credit Unions, WOCCU has recommended a range of 70-80% of total assets in the loans portfolio (see for example, Richardson, 1997). CUA's percentage falls far away from this range. This means CUA has not been able to maximize its productive assets to achieve sufficient earnings. Table 4 also shows that the percentage of total assets that have been invested by CUA in financial investments has been increasing from 33.90% since 1995 to 60.60% in 1999. This is quite above the maximum target of 10% set by WOCCU.

The percentage of total assets that are financed by member savings is given in the Table as 21.10% as at 1999. This falls out of the 70-80% range set by WOCCU. In addition the percentage of total assets that are financed by share was 1.505 in 1995, but fell to 1.20% in 1999. This falls far below the WOCCU ideal target of 10-20%. These two percentages are not healthy indicators. They show that savings and deposits by member Credit Unions are not enough. CUA cannot therefore be said to be achieving financial independence.

The percentage of assets that are financed by institutional capital is 38.60% as at 1999. Institutional capital is defined as all legal and non-distributive reserves including that portion of the current year's surplus that will be retained as reserves. This has an explicit interest costs and its primary function is to finance all non-income generating assets of Credit Unions. CUA's percentage is far above the minimum ideal target of 10% set by WOCCU. This means that CUA has been making profitable use of its reserves.

Asset quality/non-productive assets

Non-productive assets do not generate income. They are assets such as buildings, furniture and equipment whose contributions are intangible. The WOCCU target limits Credit Unions to a maximum of 5% of total assets. The higher the ratio the more difficult it is to generate sufficient assets (see for example, Richardson, 1997). It can be observed from Table 5 that CUA has not been able to achieve the WOCCU target. By 1995, the ratio was 26.4%, falling to 20% in 1996. It rose by 13.3% to hit a record high of 32.3% in 1997

before falling to 18.4% n 1998 and 13.70% in 1999.

Table 5: Asset Quality/Non – Productive Assets (1995 – 1999)

NON -PRODUCTIVE ASSETS	1995	1996	1997	1988	1999
Delinquency/ Total Loans	N/A	N/A	N/A	N/A	N/A
Non – Productive Assets / Total Assets (%)	26.40%	30%	32.30%	18.4%	13.70%

Rates of returns and costs

These measure the average income yield for each of the most productive assets of the Balance Sheet. In addition they measure the average cost yield for each of the most important liability and capital accounts. The results indicate whether the Credit Union is earning and paying entrepreneurial rates on its assets, liabilities and capital. This methodology assists management in determining which investments are the most profitable. It therefore helps to determine how effectively CUA has been able to place its productive resources into investments. Table 6 below shows that CUA generates quite low earnings in its short term and liquid investments.

Table 6: Rates of Return and Costs (1995 – 1999)

EARNINGS AND COST	1995	1996	1997	1988	1999
Return on Loans/Average Loans	N/A	N/A	N/A	N/A	N/A
Return on Liquidity/Average Liquid Instruments	25.90%	34.30%	32.80%	25.40%	21.90%
Return of Financial Investments/Average Financial Investments	0.44%	3.90%	12.00%	8.60%	7.20%
Cost of Deposits/Average Deposits	12%	17%	16%	17%	13%
Cost of Shares/Average Shares	N/A	N/A	N/A	N/A	N/A
Cost of External Credit /Average External Credit	N/A	N/A	N/A	N/A	N/A
Gross Margin/Average Assets	N/A	N/A	N/A	N/A	N/A
Operating and Administrative Expenses/Average Assets	25.10%	27.60%	24.10%	33.60%	31.80%
Provisions for Losses/Average Assets	N/A	N/A	N/A	N/A	N/A
Net Income/Average Assets	N/A	2.30%	0.75%	0.60'%	0.54%

The highest was 34.30% in 1996 and it reduced to 21.2% in 1999. Ratio of financial investments to average financial investments also reduced from 12 % from 1997 to 7.20% in 1999. WOCCU targets recommends the highest rates possible owing to undue risk. The ratios indicated above are obviously too low and exposes CUA to risks.

Table 6 also indicates financial intermediation costs of CUA. The "ideal" target recommend by the WOCCU is to maintain costs between 3.5 - 5% of average total assets. CUA’s ratios have been fluctuating between 25.1% and 31.80% since 1995. These exceed the ideal target and therefore indicate that CUA’s administrative costs are too high and uncompetitive.

Liquidity: **Liquidity refers to the cash needed for withdrawals. PEARLS system analyses liquidity from three perspectives; total liquidity, reserves liquidity reserves and idle liquidity funds. Table 7 shows the findings of the study.**

Table 7: Liquidity Indicators (1995 – 1999)

LIQUIDITY	**1995**	**1996**	**1997**	**1988**	**1999**
Liquid Instruments-Immediate Obligations/Deposits	81.4%	114.4%	151.4%	196.6%	236.7%
Liquidity Reserves/Deposits	153%	164%	148%	165.3%	167%
Cash and Non-earning Liquidity/Total Assets	26.4%	25'%	32.3%	18.4%	13.7%

- **Total liquidity reserves**

  The WOCCU ideal target is to maintain a minimum of 20% of the deposit savings in liquid accounts. In Table 7 CUA's percentages are over and above that percentage. In fact, CUA's percentage has been rising from 82% to 236% since 1995.

- **Liquidity reserves.**

  Credit Unions are required to maintain an amount equivalent to 10% savings deposits. CUA's liquidity reserves that stood at 167% in 1999 and are therefore higher than ideal target. Liquidity Reserves could be used to pay dividends in future or interests on members' deposits, if need be.

- **Idle liquid funds.**

  This is a non-earning liquidity because it does not earn any income by way of interests. The WOCCU ideal target is to reduce the percentage of idle liquidity to as close to zero as possible. The table shows CUA has not been able to do this. As at 1999 it stood at 13.7%

Signs of growth: **Growth is measured by the percentage change between current and previous year performances for total assets, loans, deposits, external credit, shares, institutional capital and members. If a Credit Union is not growing then it is decapitalizing itself, especially when inflation keeps rising. Table 8 indicates the findings of the study on growth at CUA.**

Table 8: Growth Indicators of CUA (1995 – 1999)

GROWTH	**1995**	**1996**	**1997**	**1988**	**1999**
Total Assets	N/A	91%	36%	36%	24%
Loans	N/A	15%	6.50%	5.60%	-18%
Deposits	N/A	22%	89%	32%	47%
External Credit	N/A	N/A	N/A	N/A	N/A
Shares	N/A	14%	15%	57%	70%
Institutional Capital	N/A	132%	58%	32%	59%
Members	12%	0.90%	13%	0%	7%

- **Total assets**

  Table 8 above shows growth in total assets dropping from 91% in 1995 to 24% in 1999. The ideal goal for all Credit Unions is to achieve a real positive growth.

- **Loans**

  The loan portfolio is the most important and profitable Credit Union Asset. If growth in total loans keeps pace with growth in total assets, there is a good likelihood that profitability will be maintained. Conversely, if loan growth rates drop, this suggests that other less profitable areas are growing faster. In CUA the percentage change has been declining from 15% in 1995 to a negative 18% in 1999.

- **Savings deposits**

  With the new emphasis on savings mobilization, savings deposits are the new cornerstones of growth. The growth of total assets is dependent on the growth of savings. The rationale for maintaining aggressive marketing programs is that it stimulates growth in new savings deposits, which in turn affect the growth of other key areas. CUA shows favorable trends here. Reaching a high percentage growth of 89% in 1998, deposits however, decreased by 47% in 1999.

- **Shares**

  Share savings are de-emphasized under the new Credit Union model. If growth rates in this area are excessive, it usually signals the inability of the Credit Union to adapt to the new system of promoting deposits over shares. According to Table 8, growth in shares increased by 32% in 1996 and fell by 59% in 1999.

- **Institutional capital**

  Sustained institutional capital growth is the best indicator of profitability within Credit Unions. Static or declining growth trends in institutional capital usually indicates a problem with earnings. If earnings are low, the Credit Unions will have great difficulty in adding to institutional capital reserves. The growth trend depicted in the table shows that CUA has a problem with earnings. CUA recorded 132% growth in 1996, went down to 58% in 1997 and reduced to as low as 32% and back to 59% in 1999.

- **Membership**

  From a percentage change of 12% in 1995 over 1994, this modest achievement was scuttled when 1996 witnessed an insignificant change of less than 1%. In 1997, membership rebounded by a change of 13% over 1996, whereas by 1998 membership recorded a zero percentage change. By the close of 1999, the figure crawled up a bit to 7%.

The PEARLS analysis of CUA gives some noticeable developments in that organization. These could be summed up as follows:

- Savings and deposits are not enough.
- The financial structure indicates a low ratio of share to total assets.
- Earnings generated by CUA are quite low while administrative costs are high.
- There has been a decreasing trend in Asset Growth.
- There has been a considerable shift from deposits to shares. This is in spite of the high mobilization of savings and deposits.

In general, the analysis shows considerable fluctuations and inconsistencies in its financial performance indicators. In addition, it indicates that the financial performance of CUA is not up to ideal targets set by World Council Credit Unions (WOCCU). These suggest that CUA has is not financially healthy.

6.2. Operational Self-Sufficiency of CUA and the Central Finance Facility (CFF)

The PEARLS analysis above helped us monitor the management and the financial performance of CUA over five years (1995-1999). To help us understand the level of sustainability of CUA, this section looks at the operational self-sufficiency of CUA and CFF. We are considering CFF in addition because it was established to create a central pool for on lending funds. In addition, it exists as a separate unit in CUA. The aim was to enable the Credit Unions to attain full sustainability.

Operational self-sufficiency is an indication of the long run capacity of CUA and CFF to deliver services to the Credit Unions in Ghana. This will however depend on their ability to generate sufficient revenues to cover operating and financial costs. Two key indicators assessed this. They are

- The ratio of operating income to operating and financial expenses; and
- The ratio of operating expenses (administrative and bad debt provisions) to average outstanding loans.

Table 9 presents information on the above.

Table 9: Operational Self-Sufficiency of CFF and CUA

	CFF		CUA	
	1999	**1998**	**1999**	**1998**
Total Income	256,487,448	183,989,380	472,478,817	353,481,679
Financial Expense	108,155,123	106,815,634	1,856,972	3,477,331
Administrative Expenses	124,483,717	63,337,899	146,371,787	159,964,829
Bad Debt Provisions	21,000,000	2,100,000	-	-
Total Expenses	232,638,840	170,291,624	545,105,242	565,243,969
Operational self-sufficiency	110%	108%	87%	62%
Operational Expenses/Average Loans Outstanding	15%	NA	NA	NA

Table 9 shows there were substantial increases in the expenditure of both CUA and CFF. It also shows the operational self-sufficiency of CFF as 110% and CUA as 87% as at 1999.

Another indicator of operational efficiency is the ratio of operational expenses to average outstanding loans. According to Otero and Rhyme (1994), operational sustainability is achieved where operating costs are brought below 25% of loan portfolio such that revenues for interest rates and fees cover operating costs. CFF achieves this target with a 15% level. In general, one can observe from Table 9 that CFF is on its way to achieving self-sufficiency. The program is fully financed from the savings of its members. Fees and interest income cover the real cost of funds and operations. However, CUA itself appears far from this. Grants are still required to fund some aspects of its operations.

7. System of Governance and Organization of the Credit Union Movement

The previous chapters have looked at the operational strategies and sustainability of the Credit Union Association of Ghana (CUA). In this chapter we examine institutional and structural change adopted by CUA to implement its strategy. As we observed in our review of the literature major changes in the Credit Unions have basically involved transformation of their ideological and institutional nature. For instance, Credit Unions have become more business oriented and common bond restrictions of members have been relaxed.

This chapter, therefore examines the governance and the organization system of CUA. In doing that, we will also examine the vertical linkages in the Credit Union movement. That is how linkages between the national association, CUA and its primary Credit Unions are structured. Finally we will consider the horizontal linkages existing between the different primary Credit Unions. To investigate the tasks set out in this study, we examined existing policy documents on the structural development and reports of the biennial conference of the Credit Union movement. We also conducted interviews with the Credit Union management.

7.1. The Governance and Organizational Set Up of the Credit Unions in Ghana

In general there are three major decision making bodies:

- The Biennial Conference of Member Credit Union Representatives. This is the general body of members and is the policy making body in the Credit Union movement. They therefore, have the ultimate authority in the affairs of the Credit

Union. Representation of delegates at conferences is based on the number of societies within a particular chapter.

- The Board of Directors elected by member representatives: Their duties involve the supervision of the day-to-day administration of CUA. The principal office holders in the Board of Directors are the Chairman, First Vice Chairman, Second Vice Chairman, Treasurer and Assistant Treasurer.
- The General manager takes charge of the day-to-day administration of CUA.

According to CUA's bye-laws, the General Manager is entrusted with the following responsibilities:

- To analyze financial and accounting information from operations, and make a budget proposal to the Board for the ensuing year.
- To translate the goals of CUA into the budget and submit the proposed budget to the Board for review and acceptance.

The office of the General Manager is the administrative component of the Credit Union movement in Ghana. The administrative component is the hierarchical structure of full time officers for the implementation of the policies of CUA.

CUA financial management system and policies

The Board of Directors and the General Manager of the Ghana Co-operative Credit Unions Association (CUA) Limited, have been conferred the legal responsibility of managing the funds of the Association. Financial policies, practices and procedures have been designed by the CUA Board of Directors to ensure an efficient and effective financial management, accountability and proper internal controls.

The CUA Bye-Law, article 56(e), indicates that the General Manager shall act on behalf of the Treasurer of the Association to receive and pay out money and keep cash on hand, deposit and withdraw money from banks or other financial institutions invest and borrow funds. The General Manager shall also keep accounts and records on behalf of the Treasurer, and take charge of the documents, payment vouchers and receipts of the Association. The General Manager shall analyse financial information from operations and shall report to the Board of Directors the financial conditions of the Association.

The present set up of the Credit Union movement in Ghana is derived from a major re-organization in 1991. This brought in a two-tier system of organization linking the primary Credit Unions directly to CUA, the national association.

Prior to this reorganization, the Credit Unions operated a three-tier system comprising the national association CUA, ten regional chapters and the primary Credit Unions. In this structural arrangement the Regional Chapters existed as autonomous entities without any management control from the CUA. Furthermore, the participation of the primary Credit Unions in the affairs of national association, CUA was indirect through the Regional Chapters who sent delegates to National Conferences.

The three-tier system led to a number of problems for the Credit Unions; these included (see for example, CUA, 1991)

- Improper funding of CUA because subscription to shares and savings were made to the regional chapters by the primaries.
- Over-lapping /confusion of functions of CUA and the chapters; the chapters supervised the activities of the primary Credit Unions and also recommended them to the Co-operative Department of Ghana for registration.

- Lack of uniformity in the operations of Chapters particularly on dues collection; each Chapter formulate its policies and set rules for the Credit Unions in their Region.
- Selfish/uncooperative attitude of Chapters: The Chapters regarded themselves as autonomous and would not advance the subscriptions and dues paid by the Credit Unions to the national association.
- Primary Credit Unions could not directly participate in the decision making at the national level because the regional chapters represented them.

The two-tier system

The change to the two tier system in 1991 was to ameliorate the above mentioned problems. The two-tier system was organized along the following principles:

- The primary societies were given direct affiliation with CUA by paying affiliation fees and subscription to its shares
- The primary societies were directly represented at the biennial conferences, CUA's Board of Directors and Committees by their delegates
- CUA took over and performed the functions of the Regional Chapters. By this the staff of the Regional Chapters became paid officials/representatives of CUA at the regions.

7.2. Patterns of Organizational Development in the CUA of Ghana.

The description of governance and organization system given above indicate certain patterns of organizational development in CUA and the Credit Union movement in Ghana.

Firstly, the establishment of central services such as the Central Finance Facility (CFF) and a risk management scheme for the Credit Union movement indicate an attempt to integrate the activities of the Credit Unions in Ghana and provide a central pool for funds for on lending.

This system of organization exhibits the characteristics of Dulfer (1984)'s integrated co-operative system. According to him, integrated co-operative system involves the pooling of resources together to ensure the operation at low cost and maximum promotion of member interests. The co-operative management is defined as a form of group management and involves elected members and employed personnel. These are allowed to take decisions involving planning and operation of the co-operative enterprise as well as members' autonomous economic units.

In CUA's new system of organization, the Regional Chapters acted as staff or as geographic extension of the administrative component of CUA. These units provided the Credit Unions expert advise and assisted in the implementation of policies formulated at the national level. In addition they collated financial information for planning and decision-making at the national level. At the national level, CUA acted as the apex organization of the Credit Unions.

A second observation of the pattern of CUA's organizational development stem from its participatory social arrangements. Although the primary Credit Unions are linked directly to the national association, their participation in CUA affairs is indirect through elected officers, the Board of Directors. This representative management structure has given CUA a "dual" management structure (see for example Cornforth et. al., 1988). This is because the organization of CUA as the national apex body of the Credit Union

Movement of Ghana comprises Board of Directors, representing the general body of members and an administrative componenet headed by the general manager.

The administrative component is the hierarchical structure of full time officers for the implementation of the policies of CUA. The administrative component is generally an outcome of the representative management system in self-managed organizations and shows the tendency toward the bureaucratization of the CUA. The co existence of the administrative component and the representative management structure gives the credit union movement in Ghana the character of a hybrid organization, which is normally found in occupational associations (Macdonald and Warner 1978).

CUA can be described as a hybrid organization because it has both legal rational elements of a bureaucratic organization and representative management structure. The Board of Director's authority is exercised downward through the administrative component involving also the staff regional chapters. At the same time, the general body of members continues to express their will upward through their representatives, the Board of Directors and at the biennial meetings.

The development from direct participation to representative democracy itself has been associated with a number of problems. It brings about division of labor and role specialization. This may in turn lead to greater functional and hierarchical differentiation. Hierarchical and functional differentiation both produces structures, which may have negative effect on democratic control in co-operatives (Furstenberg 1983). As we learnt from our review of the literature, the implications of this are many. It means that CUA could no longer be directly managed by their members, but had to hire specialized management staff. They have become primarily economic agencies operated by specialists as managers under the discipline of the market, with effective member participation only a residual phenomenon.

However, the present structure of CUA shows that the pursuit of democratic control can still be achieved inspite of the introduction of bureaucratic principles to ensure efficient operations. The present structure has enabled CUA to maintaian its democratic and self management character and at the same toime put into placce measure to ensure economic efficiency. This then, enhanced the ability of members at the grass roots to set goals and determine the direction of operations of the Credit Union Movement in order that the prime objective of the Credit Unions, namely, the promotion of the members' interest is realized.

To sumarize, the analysis of organization development of CUA shows that it has been a re-organization into a two-tier system with a direct linkage between the primaries and the national association. The primary Credit Unions have further been grouped into ten Regional Chapters. This has enabled CUA to centralize a number of functions the national level. This devlopment has led to the creation of a strong administrative component for CUA. This bureaucratic component exists togeher with the other representative decision making bodies of CUA, the Bienniel Conference and the elected Board of Directors. Through this hybrid structure CUA has been able to creat a democratic organizational system and yet intorduce financial and administrative disciplines in its organiation.

8. Conclusions and Recommendations

A major objective of this study of the Credit Union Association of Ghana was to investigate the extent to which it has been able to respond to the challenges of the new economic climate engendered by economic liberalization program in Ghana. In order to realize this objective we explored the activities of Credit Union Association of Ghana (CUA) from 1995-1999.

To be more competitive in the new Ghanaian environment the Credit Union Movement through their mother association, CUA has moved toward establishing a new Credit Union model to make the movement financially independent and competitive. This has involved the introduction of new institutional policies, financial management disciplines, credit administration, and improvements in management information systems.

There has also been a diversification of the products and services of CUA, the establishment of central services, the Central Finance Facility (CFF) and a risk management scheme, for the Credit Union movement. These mark an attempt to integrate the activities of the Credit Unions in Ghana and provide a central pool for funds for on lending.

Our investigation of the sustainability of CUA indicates some fluctuations and inconsistency in its financial performance indicators. In addition, an assessment of CUA's operational self-sufficiency. shows that its incomes have been able to cover its operational costs. CUA therefore has not been able to achieve self-sufficiency and financial independence.

Our analysis of the organization and development of the Credit Unions show that restructuring of Credit Union movement into a two-tier system with a direct linkage between the primaries and the National Association (CUA). The primary Credit Unions have further been grouped into ten Regional Chapters. This has turned the Credit Union Movement into an integrated co-operative system with CUA, the national association, as an instrument for formulating uniform policies and strategies.

Recommendations

For CUA to be able to improve the performance of the Credit Unions in Ghana the following recommendations are made:

- CUA Ghana must move from a regime of low interest rates, payable on savings and other facilities offered by the Central Finance Facility, to rates that will ensure viability, sustainability and growth, for the benefit of all members.
- The CUA's over-dependence on donor/external assistance should generally be replaced by a policy geared towards self-sufficiency and increasing reliance on self-generated funds. This way, it can attain sustainability and growth more quickly.
- Customers in Ghana are price sensitive to banking services. They demand low interests for credit, convenient location and wide range of services. This has encouraged vigorous competition in the baking industry. For Credit Unions to be competitive, they need to operate at low cost. This requires operational efficiency and scope economics. Further more, they would also need to combine effective product and service differentiation with low cost operation. The CUA should endeavor to introduce new products and services as provided by the formal banking institutions in order to attract new members and to retain the existing ones.

- CUA should adopt The World Council of Credit Union's PEARLS system as soon as possible. This will help her establish adequate management information system to enable her monitor the performance of the Credit Unions in Ghana.
- Credit Unions, like other Microfinance institutions have not received requisite attention from Central Governments. More attention is rather given to the large formal financial institutions. It is recommended that Central Government consider the following issues: Support the Credit Unions in providing training programmes for their staff; create a sustainable regulatory environment for the Credit Unions.
- With the development of the Central Finance Facility at CUA, the Bank of Ghana should recognize the Credit Unions as financial brokers by.
- In addition to the development of Regional Credit Union Chapters, mergers among primary Credit Unions should be encouraged. Mergers enable Credit Unions combine their resources to acquire new technology, employ professional staff, centralize functions and introduce new products and services. Mergers should be seen as an important mechanism for deploying Credit Union assets to most efficient use, bringing about better management and a means to diversify membership base, (cost reduction). This therefore, offers a way of consolidating efforts of the primary Credit Unions at making them more competitive. The mergers of Credit Unions should be based on poor asset quality, inadequate reserves, profitability and high administrative costs.

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APPENDIX I: List of Acronyms

ACCOSCA	African Confederation of Co-operative Savings and Credit Association.
CUA	Credit Union Association of Ghana.
CCF	Central Finance Facility.
MFI	Microfinance Institutions.
NBFI	Non-Bank Financial Institutions.
IPDP	Individual Primary Development Planning.
PEARLS	Credit Union Monitoring and Evaluating System.
P	Protection.
E	Effective Financial Structure.
A	Asset Quality.
R	Rates of Return and Costs.
L	Liquidity.
S	Signs of Growth.
ROSCA	Rotating and Credit Association.
USAID	United States Agency for International Development.
WOCCU	World Council of Credit Unions.

APPENDIX II: The PEARLS Rating System Instructions

P = PROTECTION

PEARL	DESCRIPTION	TARGETS
P 1	Allowance for Loan Losses/ Delinquency > 12 months	100%
P 2	Net Allowance for Loan Losses/ Total Delinquency	35%
P 3	Complete Loan Charge-Off Delinquency > 12 months	100%
P 4	Bad Debt Charge-Off / Total Loan Portfolio	0%
P 5	Accumulated Recovered Charge-Offs/ Accumulated Charge-offs	

E = EFFECTIVE FINANCIAL STRUCTURE

E 1	Net Loans/Total Assets	70 - 80%
E 2	Liquid Assets/ Total Assets	Maximum 20%
E 3	Financial Investments / Total Assets	Maximum 10%
E 4	Non-Financial Investment/ Total Assets	100%
E 5	Member Savings Deposits / Total Assets	70 - 80%
E 6	Borrowed Funds (External Credit) / Total Assets	0
E 7	Member Shares/ total Assets	10 - 20%
E 8	Institutional Capital/ Total Assets	Minimum 10%

A = ASSET QUALITY

A 1	Total Loan Delinquency/ Total Loan Portfolio	Less than 50%
A 2	Non-earning Assets/ Total Assets	Less than 5%
A 3	(Zero Cost Funds) / Non-earning Assets	Greater than Or equal to 100%

R = RATES OF RETURN AND COSTS

PEARL	DESCRIPTION	TARGETS
R 1	Net Loan Income/Average Net Loan Portfolio	At least 10%
R 2	Liquid Asset Income/Average Liquid Assets	Highest rate Possible
R 3	Financial Investment Income/Average Financial Investment	Market rates
R 4	Non-Financial Investment Income/Average Non-Financial Investment	Rates greater than R1
R 5	Financial Cost: Member Deposits/Average Member Deposits	Competitive rates
R 6	Financial Cost: Borrowed Funds (External Credit/ Average Borrowed Funds (External Credit)	Same or lesser than R5
R 7	Financial Cost: Member Shares/Average Member Shares	Same or greater than R5
R 8	Gross Margin/Average Total Assets	Sufficient to cover costs
R 9	Operating Expenses/Average total Assets	3 - 10%
R 10	Provisions for Risk Assets/Average Total Assets	To cover 100% of delinquent loans
R 11	Non-Recurring Income or Expense/Average Total Assets	Minimum possible
R 12	Net Income/Average Total Assets	Enough to alter the goal of E8

L = LIQUIDITY

L 1	Liquid Assets- Short-term Payables/ Total Member Deposits	Minimum 150%
L 2	Liquidity Reserves / Total Member Deposits	10%
L 3	Liquid Assets (Non- Earning) Total CU Liquidity	10%
L 4	CU Deposits in CFF / Total CU Liquidity	10%

S = SIGNS OF GROWTH

PEARL	DESCRIPTION	TARGETS
S 1	Growth in Total Assets	Greater than the Inflation Rate
S 2	Growth in Loans	Greater than growth - Assets
S 3	Growth in Member Deposits	Greater that inflation and growth in total Assets
S 4	Growth Borrowed Funds	Greater than inflation and growth-Assets
S 5	Growth in Members Shares	Greater than inflation and growth - Assets
S 6	Growth in Institutional capital	Greater than inflation and growth - Assets
S 7	Growth in Membership	5%

Source: Richardson (1997)