[redacted]

From: [redacted]
Sent: [redacted]
To: [redacted]
Subject: "Consultation on Potential Changes to the Investment Framework for Credit Unions"
Attachments: [redacted]

Consultation on Potential Changes to the Investment Framework for Credit Unions

My submission is as follows:

(1)

The Tax Strategy Group (TSG), which recommended in 2009 that "Tax exemption for the income of credit unions should be continued" (TSG Report 09/20: http://taxpolicy.gov.ie/wp-content/uploads/2011/03/09.20.pdf), be invited to review the matter of tax expenditures in favour of Credit Unions in light of changes in the sector since then.

(2)

That the option of creating "a special fund to be used by the credit union for such social, cultural or charitable purposes (including community development)" contained in Section 44 of the Credit Union Act 1997 be changed by legislative amendment to a requirement in the case of Credit Unions which have enlarged since 1997 by way of amalgamation, while continuing to be optional in the case of 'Pre '97' Credit unions

(3)

The the Dormant Accounts Acts be amended to bring within the compass of the Dormant Accounts Fund those Credit Unions which have enlarged since 1997 by way of amalgamation, while making transfers of dormant balances to the fund optional in the case of 'Pre '97' Credit unions. This initiative was recommended by the Dormant Accounts Board, of which I was a member, in its final Annual Reports (2011 & 2012).

Finally, I also commend to the Consultation my submission of November 2016 to the Department of Environment's Consultation on the Housing Rental Sector and my submission of July 2012 to the Joint Oireachtas Committee on Public Finance and Reform in connection with the Credit Union Bill 2012. Both attached.

Kind regards

[redacted]

Rental Housing Consultation

07 November 2016

INTRODUCTION

This submission is made in my personal capacity as a person who rented in the private sector in Ireland for ten years, prior to becoming a mortgagee. The submission is informed also by my experience of Credit Union membership over a period in excess of three decades. It rehearses themes from a previous paper of mine. Community participation, which was published while I was member of the Dormant Accounts Board and which was the subject of an appearance I made before the Oireachtas Committee on Public Finances in September 2012..

Des Gunning
November 2016

***

The white paper on economic development, prepared in 1958 when T.K. Whitaker was the innovative secretary of the Department of Finance, included the phrase: "History affords no support for the belief that co-operative credit societies could be successfully established. . ." That white paper, leading to Irish economic expansion, also examined the sources and uses of savings without realising the great potential of co-operative credit.

Despite conventional wisdom and negative official attitudes towards co-operative credit, the Irish League of Credit Unions, representing 352 credit unions in the Republic of Ireland with 2.89 million members, was able to announce, early in 2016, that it was prepared to provide a fund of up to about €5 billion, from an asset base of some €14bn, to assist in the development of social housing

The ILCU has indicated its expected return on any funds made available through the Social Housing Fund in the order of " 3% - 4%"

Writing in the Irish Independent on World Credit Union Day 2016 (Thursday October 20Th) Kevin Johnson of the Credit Union representative body, CUDA points to admirable, progressive features of the Canadian Credit Union model (which is half a century older than its Irish counterpart), which features, he suggests, merit emulation here.

He does not mention the Community Investment Programmes which are an integral feature of Credit Union operations in Canada, These are designed to provide funding to non-profit and charitable organizations that directly benefit the community. One of these, 'Conexus' in the province of Saskatchewan, typifies the approach:

> ***"By investing in people and communities, Conexus makes a measurable impact on the quality of life in while demonstrating commitment to being a good corporate citizen and commitment to the co-operative principle of concern for community.***

To be eligible for support in the form of a financial contribution, partnership or employee volunteer support, the request or proposal must align with at least one of our key investment priorities: initiatives that enhance the well-being of people, including financial literacy and practical programs and services that empower or improve their quality of life or social situation with an emphasis on future generations or initiatives that enhance the vitality and sustainability of our member communities including capital projects, engage community volunteerism or embrace co-operative and community development."

The Irish Credit Union movement has had the legislative framework to develop such programmes since 1997, provided for in Section 44 of the Credit Union Act, which came into force in May of that year (now almost twenty years ago).

In addition , it is now fifteen years since Finance Minster Charlie McGreevy declared his intention to bring Credit Unions, along with all other financial institutions, within the remit of the Dormant Accounts regime. Despite the urgings of the Dormant Accounts Board, of which I was a member, no progress has been made in that regard.

We are approaching the 65th anniversary of the lecture given by Seamus Mac Eoin at the Printer's Union Hall in Gardiner Street Dublin to which the Credit Union movement in this country can trace its origins– the early days having benefitted from significant from the Credit Union family in Canada."

The hope that informs this submission is that the Credit Union movement in Ireland has arrived at a point where Mr Johnson's call for 'greater value by modernisation' can be complemented by greater value by community investment, using at the least the instruments that are readily to hand."

The instruments I have in mind are Section 44 of the Credit Union Act 1997 and the Dormant Accounts Acts. What follows is an attempt to sketch one route by which they might be utilised:

The Housing Company model

There is no statue to Sir Richard Cross in Dublin. Cross , a member of the Disraeli government in 1875, was the author of a legislative initiative which prompted the creation of the Dublin Artisan's Dwelling (DAD) company which would contribute some 3.600 units to the housing stock in Dublin. For all their faults – and they tended to be small – the best quality accommodation I enjoyed my ten years in the private rented sector in Dublin, were DAD developments dating from the opening years of the 20th century. In Stoneybater and elsewhere, 'DAD' continue to be the mainstay of the first time buyers' market. An assessment by the Dublin Civic Trust in 2009 identified some DA developments as comprising "some of the best artisans housing built in Ireland during the 19th century, and are unique in their ambitions of scale and quality of execution."

This submission is, in part an enquiry as to whether there is some step that might release, in Dublin particularly, a burst of rental housing provision such was seen when the Dublin Artisan's Dwelling Company was in its heyday.

The Housing Company model of provision is discussed briefly in the NESC's 'Financing Social Housing' report (2014). Its two most salient characteristics are that its costs do not fall directly on the general government sector

A Dublin Housing Company

It seems to me, as a Credit Union member of over thirty years, that is there room in the housing mix in Dublin, (as a pilot for other centres) for a **Dublin Housing Company** along the lines of the Dublin Port Company which is

> *" a self-financing, private limited company, wholly owned by the State and reporting to the Department of Transport, Tourism and Sport."*

I suggest that **Dublin Housing Company** would be a self-financing, private limited company. It might have characteristics in common with the Dublin Artisans Dwelling company of the later 19th century, except that t would be wholly owned by Dublin City Council and reporting accordingly. If the typical Housing Company model were applied, the Council would invest land and property, while partners provide funding and house building expertise."

The UK papers have been reporting on Councils "looking to housing companies" to address that country's housing needs:

> *"Council-owned housing companies can allow local authorities greater borrowing power and flexibility in rents and tenures, as well as exempting properties from the Right to Buy. They have so far been particularly popular in London boroughs, including Newham, Ealing and Greenwich...."*

Funding a Dublin Housing Company

As I understand it, it would be within the gift of the Minister for Housing to make a an allocation from the Dormant Account Fund to such a purpose, This allocation could by as much as €100 million, without compromising the viability of the fund, which currently stands at €143 million in credit (excluding a €71m reserve for future reclaims by account holders)

There is also the Credit Unions, financial institutions who have proposed to government a "3% to 4%" return, that is, a premium return in present circumstances, in return for making assets valued in billions available for investment , through one or more Special Purpose Vehicles, in social housing.

Many 'industrial" Credit Unions, are headquartered in Dublin (see list attached) and could use Section 44 of the 1997 Credit Union Act to support the establishment of a then self-financing Dublin Housing Company.

While serving on the Dorman Account Board, I conducted an exercise, albeint on an informal basis, that led me to estimate the aggregate value of Section 44 would be somewhere in the region of €25m if applied in full across the Credit Union movement today.

I did not estimate what the value of that provision would have been if implemented in each of the years since its enactment in May 1997.

Additionally, I estimated the amount currently dormant on Credit Union balance sheets to be of the order of €2m. That is, notwithstanding that most Credit Unions now operate a 'form of nomination' scheme which come into play when an accountholder passes away.

I'm not aware that either of the Credit Union representative organisations have ever conducted a formal audit of either figure. It would be a welcome development if they were to do so.

On 18 October 2016, the Minister for Finance told Dail Éireann

> "Credit union representative bodies have also set out a proposed means by which funding could be provided by credit unions to Approved Housing Bodies for the development of social housing. My Department and the Department of Finance have met with these bodies on a number of occasions to examine how credit unions can assist in the area of social housing . **To date no reference has been made during those meetings to either section 44 of the Credit Union Act 1997 nor to the use of dormant accounts in credit unions for such funding purposes.**" [Emphasis added]

'Credit Union Plus', the newly-named and amalgamated Navan and district credit union organisation, came into being August 2016) with 40,000 members , only 6,333 of whom were borrowers.

This gives an indication of why the Irish League of Credit Union's 'Social Housing Funding Proposal' seek to replace the many small borrowers with one larger one, the state

It is central to this submission that a discussion around Credit Union engagement with providing finance to develop housing in the rental sector, includes a discussion of Section 44 and the Dormant Accounts Acts into the discussions between the State and the Credit Unions in the matter of financing social housing provision.

This would be in keeping with a recommendation made the Dormant Accounts Board in its final report (2012). It would bring rhetorical constructs into the real world and would reflect the extent to which the Credit Union movement gains from the framework and underpinning provided by the state.

One ventures to hope that if implemented, even broadly along the lines indicated above, Credit Union engagement with Section 44 and the Dormant Accounts Fund could possibly generate social gain, adding to our civic and social armament one more tool to help address challenges such as the housing crisis.

Credit Unions and Social Responsibility

> *"Continuing the ideals and beliefs of co-operative pioneers, credit unions seek to bring about human and social development. Their vision of social justice extends both*

to the individual members and to the larger community in which they work and reside. The credit union ideal is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the credit union sphere of interest and concern. Decisions should be taken with full regard for the interests of the broader community within which the credit union and its members reside."

Credit Union Operating Principles
Source:
Standard Rules for Credit Unions affiliated to the Irish League of Credit Unions

Credit Unions benefit from a statutory exemption from Corporation Tax (Section 219A, Taxes Consolidation Act 1997.)

In addition, the Department of Finance's Tax Strategy Group (TSG) said as follows in its March 2011 update:

> *"Tax exemption for the income of credit unions should be continued."*
>
> (SOURCE: "TSG 09/20, 8.103-Tax Incentives/Expenditures: http://taxpolicy.gov.ie/wp-content/uploads/2011/03/09.20.pdf)

In October 2000, Minister McGreevy abandoned attempts to impose DIRT on credit union dividends, as announced in the 1998 Budget.

On 20 June 2001, Minister McGreevy told the Dáil it would be his hope:

> *"that we can provide for inclusion of dormant Credit Union accounts at a later date, possibly by way of extension of the current scheme by Ministerial Regulation"*

No initiative in that regard has transpired to date.

On 21 July 2016, Minister Noonan informed Dail Éireann as follows:

> *To date approximately €30m has been used to support resolution actions in the credit union sector. To date levies collected from credit unions amount to €23.2m.*
>
> *Separately, the Credit Union Fund was established under Section 57 of the Credit Union and Co-operation with Overseas Regulators Act 2012 (2012 Act). The purpose of the Fund is primarily to provide a source of funding for the restructuring of credit unions under the Credit Union Restructuring Board (ReBo). The Minister for Finance contributed €250 million to the Credit Union Fund. To date approximately €10.98m has been drawn from the Credit Union Fund and levies collected to date amount to approximately €2.82m*

A perspective informing this submission is that Credit Union depositors and depositors in 'industrial' credit unions in particular appear to be materially rewarded by the state for a commitment to ideals of community and social progress that is not fully reciprocal since it is essentially rhetorical.

Site selection

Site selection is, strictly speaking, beyond the remit that this submission has set for itself. Nevertheless , the question arises “ If we’ve worked out how, then where?”. So, as an aid to thinking about the matter in material terms, I suggest three, related sites or consideration. First and foremost is the campus of which Connolly Station is a part. A very significant part of this is give over to surface car-parking, a very low-value land use for such a strategic city-centre location. Sine my time living in London in the very early 1980s I have never been able to understand why Connolly Station does not form part a Barbican-style, high-rise, high-density, ‘hi-spec’ housing development.

Related this is the surface car-park at Heuston Station, which admittedly, would probably require a new Liffey bridge, landing at the Conyngham Road Bus Depot, for its potential for high-rise housing to be realised.

Finally, the former footfall of the Broadstone Terminus (1849 – 1937) is given over to two bus depots, one each for Bus Éireann ad Dublin Bus. With the LUAS dies to pass through that real estate in September 2017, sure a change of land-use for high density, high quality rental housing is worthy of consideration?

END

Credit unions can deliver even greater value by modernising

Kevin Johnson, Irish Independent, Thursday 20 October 2016

This strengthened credit union sector is good for consumers
Credit unions have celebrated International Credit Union Day on the third Thursday of October since 1948.

It provides time to reflect upon the movement's history, the dedication of those who developed it and to promote its achievements.

It's also a great opportunity to raise awareness about the great value that credit unions deliver for people, and, critically, how much more they can do.

We know that in many towns throughout the country, credit unions are the dominant savings safe-house and lender to the people. However, there is work to be done to establish a stronger foothold in the financial services arena.

In Ireland, as the recent report from the Minister for Finance's Advisory Committee (CUAC) recognised, the credit union industry overall is very healthy and well capitalised.

This was achieved through mutual effort by the credit unions and their regulator (the Registrar of Credit Unions).

Nevertheless, they continue to face the challenges of reducing margins due to falling loan volumes in recent years, falling investment income and the higher cost of meeting the increased regulatory burden.

Many credit unions are constantly looking for ways to provide innovative products and services to their members, but are often dismayed by the threat of regulatory overreach. Ultimately, regulators must work to strike a balance between industry safety and market growth, and the Central Bank's decision to appoint its first Deputy Registrar of Credit Unions with responsibility for Business Development is a positive development.

Hopefully, as previously promised, this will see some of the old and outdated regulations, particularly around lending limits, removed in the light of the significant improvement in Board and management capabilities required under the 2012 Credit Union legislation.

In the current economic environment, credit unions have funds available that could help provide much-needed affordable and social housing, and that could help small and agri businesses create jobs. However, due to the outdated and arbitrary lending caps, their ability to help support people is hampered.
Scale is a big issue.

Most credit unions simply aren't big enough to develop more products or extend delivery options.

Recognising this challenge, the Minister for Finance established Rebo (The Credit Union Restructuring Board) to facilitate voluntary mergers throughout the country and this has worked well to date.

Consistent with our philosophy of cooperation amongst cooperatives, CUDA supported the establishment of the Solution Centre, a hothouse unit developing specialist products, management tools and solutions for credit unions.

The Solution Centre is a mirror image of its namesake in Canada, a country where credit unions have thrived by offering very competitive mortgages, consumer loans, business finance, current accounts and investment options - driving the cost of finance and expanding other offerings for Canadians.

Irish credit unions, accounting for a third of all assets in the sector, have now joined the Solution Centre, which has already rolled out its first 'solution', a digital marketing package that enables credit unions to slickly lend to new and existing members through Facebook. Many participating credit unions have already reported a spike in new lending, some of them up by 12pc.

A mortgage framework is launching shortly and other long-term lending products will follow, as will other useful datamining and member engagement tools, which will drive further expansion into advice-based financial services.

As part of this evolution, credit unions are becoming more 'forthright' in their approach, ramping up communication and activity to ensure that members are aware of their competitive loan products.

There is a compelling incentive for credit unions to become even more relevant in Ireland by modernising their approach. It's great to see some, through collaboration with the Solution Centre, are now updating policies and practices to enable them continue to deliver a personalised service, while now also meeting the digital expectations of highly active modern consumers.
As the economy continues to heal, there will be more opportunities for credit unions to distinguish themselves from other lenders and to continue proving the value of their member-owned cooperative model to consumers.

This strengthened credit union sector is good for consumers.

Kevin Johnson is the CEO of the Credit Union Development Association (CUDA)

Credit Unions and Social Funding

Re: Credit Union Act 1997: [Special fund for social, cultural etc. purposes]

On 5 May 2016, Mr Ed Farrell of the Irish League of Credit Unions, addressing the Oireachtas Committee on Housing and Homelessness: described the Section 44 provision in the 1997 Credit Union Act – a provision no Credit Union has implemented in the 19 years since its enactment - as follows:

> "Section 44 of the Act, which Deputy Maureen O'Sullivan raised, is on a fund an individual credit union can create out of its own money. It would not be a loan. It is a small fund and it can sponsor the local team or local school."

In fact the wording of the section includes the following:

> "by a majority of its members present and voting at a general meeting, a credit union may establish a special fund to be used by the credit union for … social, cultural or charitable purposes (including community development) … there may be paid into the special fund (in addition to any amount paid as mentioned in subsection (2)) an amount not exceeding 2.5 per cent. of the accumulated reserves of the credit union, excluding the statutory reserve " **[Irishstatutebook.ie]**

According to the ILCU website today, 30 June 2016, Credit unions hold Credit unions hold €11.9 bn of savings.

2.5% of €11.0bn is almost thirty million euro.

Prayer of Saint Francis

(The Credit Union invocation)

Lord, make me an instrument of your peace:
where there is hatred, let me sow love;
where there is injury, pardon;
where there is doubt, faith;
where there is despair, hope;
where there is darkness, light;
where there is sadness, joy.

O divine Master, grant that I may not so much seek
to be consoled as to console,
to be understood as to understand,
to be loved as to love.
For it is in giving that we receive,
it is in pardoning that we are pardoned,
and it is in dying that we are born to eternal life.

Amen.

The Parable of the Talents

The Gospel of Matthew 25:14-30)

14 “For it will be like a man going on a journey, who called his servants[a] and
entrusted to them his property. 15 To one he gave five talents,[b] to another two, to
another one, to each according to his ability. Then he went away. 16 He who had
received the five talents went at once and traded with them, and he made five talents
more. 17

So also he who had the two talents made two talents more. 18 But he who had
received the one talent went and dug in the ground and hid his master's money. 19
Now after a long time the master of those servants came and settled accounts with
them.

20 And he who had received the five talents came forward, bringing five talents more,
saying, ‘Master, you delivered to me five talents; here, I have made five talents more.’
21 His master said to him, ‘Well done, good and faithful servant.[c] You have been
faithful over a little; I will set you over much. Enter into the joy of your master.’

22 And he also who had the two talents came forward, saying, ‘Master, you delivered
to me two talents; here, I have made two talents more.’ 23 His master said to him,
‘Well done, good and faithful servant. You have been faithful over a little; I will set
you over much. Enter into the joy of your master.’ 24 He also who had received the
one talent came forward, saying, ‘Master, I knew you to be a hard man, reaping where
you did not sow, and gathering where you scattered no seed, 25 so I was afraid, and I
went and hid your talent in the ground. Here, you have what is yours.’

26 But his master answered him, ‘You wicked and slothful servant! You knew that I
reap where I have not sown and gather where I scattered no seed? 27 Then you ought
to have invested my money with the bankers, and at my coming I should have
received what was my own with interest. 28 So take the talent from him and give it to
him who has the ten talents.

29 For to everyone who has will more be given, and he will have an abundance. But
from the one who has not, even what he has will be taken away. 30 And cast the
worthless servant into the outer darkness. In that place there will be weeping and
gnashing of teeth.’

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National Housing Strategy for People with a Disability 2011 – 2016

http://www.housing.gov.ie/sites/default/files/migrated-files/en/Publications/DevelopmentandHousing/Housing/FileDownLoad%2C28016%2Cen.pdf

Social Housing Funding Proposal – Irish League of Credit Unions
http://www.creditunion.ie/media/creditunionie/content/files/communicationsdocuments/newsfiles/010262-Social-Housing-Summary-Doc-HR.pdf

NOTES:

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A recent newspaper report concerning issues that had come to light in an individual Credit Union noted "There are also issues around tracing the beneficiaries of hundreds of member accounts." I think it is fair to say that the corporate governance of that, and other Credit Unions would have been improved had they been subject to the Dormant Accounts regime since its application to financial institutions generally (excluding Credit Unions) in 2001.

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Annex

Photograph: National Inventory of Architectural Heritage.

The DAD scheme in which I rented, in the period 1983 – 1987 comprised seven blocks of five-bay four-storey apartment tenements. Dominick Street Upper is dominated by this terrace of brick apartments blocks, which were built in 1878 to designs by T.N. Deane & Son for the Dublin Artisan Dwellings Company.

Previous DAD developments include blocks of flats at Buckingham Street (1876), Echlin Street (1876).

At Lower Dominick Street, adjacent to the birthplace of Arthur Griffith, a scheme of housing built by Dublin Corporation replaced tenements in the mid 195os by undistinguished brick-clad galleried apartment buildings by Desmond Fitzgerald in a project which it provided 'much needed' accommodation for the residents at the time. Would itself be full down as substandard within the lifetime of many of its initial residents.

Joint Committee on Finance, Public Expenditure and Reform

Correspondence Item 2012/266

COMMUNITY INVESTMENT AND PARTICIPATION

A Submission to the Consultation on the General Scheme of the Credit Union Bill 2012

Des Gunning. **Credit Union member 1984 –**

Member of the Dormant Account s Board 2008 -

"Politics is not as it seems in clouded moments, a mere gabble and squabble of selfish interests, but ... it is the State in action. And the State is the name by which we call the great human conspiracy against hunger and cold, against loneliness and ignorance; the State is the foster-mother and warden of the arts, of love, of comradeship, of all that redeems from despair that strange adventure which we call human life"
Tom Kettle 'The day's burden'(1910)[1]

ABSTRACT:

Inspired by the pioneering ideas of Séamus P. Mac Eoin, the first Irish Credit Unions came into being in the 1950s. From origins in hard times, the Credit Union movement in Ireland has provided an alternative to the traditional banking system – an alternative that over the years has grown in popularity and numbers. Yet when it comes to community investment and participation, the Credit Union movement, some individual instances notwithstanding, seems to have performed consistently below its potential.

Mindful of the recent report of the Commission on Credit Unions this paper seeks to identify how inaction within the Credit Union movement in relation to Section 44 (the local investment clause) of the Credit Union Act 1997, together with the failure to extend the Dormant Accounts legislation to the Credit Unions, are the constituent parts of a failure to deploy resources more strategically and effectively, in the areas of social finance, community investment and civic participation, in a manner consistent with the movement's own 'Operating Principles'.

By offering a number of recommendations to address these shortcomings this paper further seeks to indicate a means by which all Credit Union members in the Republic of Ireland can become active contributors to, as well as beneficiaries of, the flourishing of community initiative, expressed as both economic and social development.

Keywords: Social finance, Credit Union, Dormant Accounts, Local Investment, Community Economic Development, Participation

[1] Tom Kettle, economics professor, barrister, and Irish nationalist politician who lost his life in 1916.

Introduction

The classic depiction of 1950s' Ireland is of a lost decade, a period of stagnation and emigration, characterised by the failure of imagination, an elderly politburo, itself formed in secretive organisations such as the Irish Republican Brotherhood; censorship, the clinging to a failed economic ideology and everywhere, to borrow Richard Kearney's phrase, 'the oppressive malaise of clericalism'[2].

The 1950s was also the decade when the first generation born after independence – at least those who did not emigrate - settled into the limited range of careers available, married, started families and as a cohort of citizens not entirely bereft of resources, began to assert with insistence but without drama that their aspirations be addressed. [3]

Ireland had only formally left the Commonwealth and made the transition from 'Free State' to Republic in 1949. Whilst it made gains as a beneficiary of the European Post-War Marshall Plan, and from such revenue as emanated from the extraordinary vehicle that was the Irish Hospital Sweepstakes, these were, to some extent 'happy accidents' and the quality of the official mind, as JJ Lee has observed, was at least in some areas, 'doubtful[4]'.

This is illustrated by an anecdote told by Seamus P. Mac Eoin's widow, Eilís: requests were flooding in the recently-established Credit Union Extension Service and with funds running low, a letter seeking assistance was despatched to the Economic Development Unit at the Department of Finance. The letter of refusal, when it came, contained the judgement that "history affords no support for the belief that co-operative credit societies could be successfully established[5]"

Despite such views, the Credit Union movement started to develop a presence. Building from the ventilation of ideas in 1953 to the inauguration of a number of Credit Unions in 1958[6], the movement has since grown to number in excess of 400 individual organisations – far too many, as will be discussed.[7]

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2 Kearney , Richard. Postnationalist Ireland: Politics, Culture, Philosophy. Routledge. London. 1997

3 The end of the 1950s further the saw Ireland opening out to the world, furnished by John F Kennedy's pursuit of the US presidency from 1956 to his election in 1960 and his eventual visit to Ireland in 1963. The new dawn was also heralded by de Valera's transition from active politics to living Presidential icon, Whitaker's radicalism and the Lemass progressing Ireland's application to join the European Economic Community.

4 Lee, JJ. Ireland 1912 - 1985, Politics and Society. Cambridge University Press. 1989

5 Mac Eoin, Eilís. Séamus P. Mac Eoin (1920 – 1993) Credit Union Pioneer. Unpublished paper. Copy with author.

6 The first Credit Unions were at Donore, Dublin, Dun Laoghaire, Clones and in the Civil Service

7 There are also another 100 Credit Unions in Northern Ireland.

However despite its popularity and ethos, the practice of 'domestic' community investment and participation on the part of Credit Unions individually and of the movement generally is still a relatively neglected area.

Internationally, the movement has a very creditable record, through the Irish Credit Union Foundation which, with taxpayer support through 'Irish Aid' and 'Europe Aid', in providing financial and technical assistance to Credit Union and savings cooperative movements in Albania, Ethiopia, the Gambia, Ghana, Russia and Sierra Leone. This valuable work is done primarily with partner organisations in the countries concerned to strengthen their Credit Union movements.

This article offers a number of proposals intended to engender public participation and an active practice of strategic community investment by Credit Unions in the domestic setting, with local authority and State support. It first reflects briefly[8]on the history of the Credit Union movement in Ireland before offering an overview of existing legislation, particularly Section 44 of the Credit Union Act 1997, with the aim of setting the background for understanding the proposals that are made for reform.

1. The beginnings of the Credit Union movement in Ireland

The Credit Union movement in Ireland was largely formed, shaped and built up, in the course of the 1950s, by those fortunate enough not to be among the excess of 400,000 Irish men and women who are estimated to have emigrated in a decade that marked a significant low in the nation's history.[9]

The Donore Credit Union Limited, Dublin was the first formally established Credit Union in Ireland and was officially registered as a Friendly Society entitled *"Cumann Muintir Dun Oir"* in August 1958. This was just a little over a century after the first ever Credit Unions were developed separately by Hermann Schulze-Delitzsch and Friedrich Wilhelm Raiffeisen in mid nineteenth-century Germany, when that country was on the verge of achieving unification.

The Credit Union idea was brought from Europe to Canada and the United States in the late 19th century by emigrants[10]. An 'Americanised' version of the model would later make its way to Ireland. A feature article in the *Irish Times* published in February 1970 suggests that the Irish Credit Union movement looked originally to the North American, largely urban and consumer-oriented model, rather than in the earlier, rural, community-focused, continental European prototype[11]. This is indicated, for example, by the advice and support afforded the Donore Credit Union pioneers by the

[8] The history of the Irish League of Credit Unions (ILCU), the larger and older of the two representative bodies in the Republic of Ireland, has been sketched in a number of publications, including "50 years of the Irish League of Credit Unions", Irish League of Credit Unions. 2010; also Quinn, Anthony P., Credit Unions in Ireland. Dublin, Oak Tree Press, 1994.

[9] Irish Centre for Migration Studies < http://migration.ucc.ie/> [Accessed 18 may 2012].

10 The poor man's prayer : the story of credit union beginnings . Boyle, George. New York : Harper, [1951].

likes of the Saint Francis Xavier University of Antigonish, Nova Scotia[12] -. The choice of preferred antecedent is not without significance. It is a feature of the European 'Raiffaisen Banks' (finance co-operatives) that each articulates an inherent desire to be a part of sustainable development in the community. It is unusual, but not absolutely unheard of, for Credit Unions in Ireland to manifest such a philosophy.

Dun Laoghaire and Clones Credit Unions were close contemporaries of Donore's; and with three Credit Unions 'up and running', one inner urban, one outer suburban and another rural, the basis of a movement was in place. By the end of 1959, Ireland's three Credit Unions had 200 members holding, between them £415 in shares. Within five years, 100 Credit Unions held £620,000 representing the shares of 28,600 members. Ten years on, in 1969, 336 Credit Unions had been established, holding £9 million in shares for 200,000 members[13].

'What's in a name?'

Initially, the nomenclature of Credit Unions was secular or geographical, that is, they were named for the locality whose population they served (e.g. Donore and Dun Laoghaire Credit Unions, Premier Navan Road Credit Union, Clones Credit Union, Ballyphehane Credit Union, etc.). Soon, a trend emerged of giving explicitly Roman Catholic names to Credit Unions. For example, approximately a dozen Credit Unions use a Roman Catholic parish name as a title and description of their common bond such as Aughrim Street Parish and District Credit Union(located in Manor Street, Dublin), Halston Street Credit Union (named for Halston Street parish and located in Capel Street). This is likely to reflect active clerical support for the movement. At present, some thirty of the 400 Credit Unions in the Republic take their names from the patron saint of the local Roman Catholic parish church.

The practice of using explicitly Roman Catholic nomenclature, on the one hand clearly tapped into a base of 'social capital' in the community and in that respect follows the late 19th century, French-Canadian *'Caisse Populaire'* model. It is likely, that clerical endorsement, along with the support of those who reported to the clergy, such as teachers, played a significant part in the growth of the Credit Union movement.[14]

Bishop Cornelius Lucey of Cork was fulsome in his praise for the Credit Union movement when he, along with Taosesach Jack Lynch, addressed its annual congress in Cork city in 1968[15].

On the other hand, dressing Credit Unions in an explicitly Roman Catholic caparison indicates a characteristically Irish ambivalence – of the institutions being *in*, but not entirely *of* civil society. It may only be now, decades after establishment that this characteristic is manifesting as a weakness, that is, the quasi-religious ambience contributes to a distance between the Credit Union, avowedly a secular 'community' organisation, and those non-Roman Catholics, of diverse faiths or none, from a range of ethnic and national backgrounds, who live or work within the common bond.[16]

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[11] 'Credit Union League of Ireland' in the Irish Times of Tuesday 17 February1970. Pages 4 & 14 [last accessed May 4, 2012].

[12] 'The oldest Credit Union in Ireland'. http://www.ilcu.ie/anniversary/index.jsp?re=2&&1nID=3462&nID=3466&aID=2228&re=2 [last accessed May 4, 2012]

[13] Irish League of Credit Unions. 50 years of the Irish League of Credit Unions. 2010

[14] For more on this, see Sean O'Connell's "Alternatives to money lenders? Credit Unions and their discontents, available at: http://www.historyandpolicy.org/papers/policy-paper-28.html [last accessed on 06 May 2012]

[15] Irish Times. Monday April 22nd 1968. Page 9

[16] Irish League of Credit Unions, Operating Principles (1984) and also section 2.3 below.

Nomenclature specific to any religious denomination is not wholly consonant with the 'operating principles' of Credit Unions in Ireland adopted in 1984. These principles include the commitment that:

> "Every person is either a member or a potential member and appropriately part of the Credit Union sphere of interest and concern. Decisions should be taken with full regard for the interests of the broader community within which the Credit Union and its members reside."

This, admittedly rather academic, point is advanced as illustration of how Credit Unions can be cognisant of both statute law and of their own organisational bye-laws, without fully binding themselves under either.

1.1 The creation of the Irish Credit Union League

Séamus P. Mac Eoin was among the pioneers of the Irish Credit Union movement. Kilkenny-born Mac Eoin had served in the Defence Forces during the 'Emergency' and later joined the civil service. In 1948, along with Michael Forde, another of the triumvirate of Credit Union pioneers, he enrolled on an evening course in social and economic studies at University College Dublin. Dr Cornelius Lucey, referenced above, one of the founders of Christus Rex, a priest's society devoted to social issues and later Bishop of Cork & Ross, was among the organisers of the course.

Mac Eoin became a popular guest lecturer on the 'co-operative circuit' and among those inspired by his presentations in Trade Unions halls and at such as the Daonscoil (folkschool) in Red Island, Skerries, was primary school teacher Nora Herlihy. It was in Herlihy's Phibsborough home that the first meeting of the Irish Credit Union League[17] , an all-island body, took place in February 1960. Among those present were Herlihy, Seamus P MacEoin, Sean Forde and a young John Hume. Although individually involved with particular Credit Unions, what is distinctive about this quartet, along with John Hume, who held the position of President of the Credit Union League - while still in his twenties, was their focus on the building up a movement. A portrait of Mac Eoin, Forde and Herlihy hangs in just about every Credit Union in the Republic.

In 1970, in a move that involved some change of senior personnel[18], the Irish Credit Union League became the Irish League of Credit Unions (hereafter "ILCU"), maintaining the all-Ireland dimension of its predecessor. By that year, the Derry Credit Union, which had been established in October 1960, was the largest in the league with over 8,000 members.

The ILCU quickly established itself as the representative of all strands within the movement – from the large "industrial" or employment-based Credit Unions to the equally large-scale urban Credit Unions to the range of 'Community' Credit Unions both large and small.[19]

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[17] "Irish League of Credit Unions" from 1972

[18] This change took place soon after, and was perhaps not entirely unconnected with a Tribunal of Enquiry into an RTÉ '7 Days' investigation into moneylending. For more information see <http://historical-debates.oireachtas.ie/D/0243/D.0243.196912160055.html> [last accessed on 11 May 2012]

[19] Unfortunately, it is impossible to show the relative sizes of the Credit Unions, as that type of information is not readily available on their website. Neither does the ILCU present information on Credit Unions by size of balance sheet on its website. The information about their sizes is, of course, presented in their detailed accounts in their AGMs.

The ILCU is not itself a Credit Union, but rather a non-statutory body organised voluntarily from within the movement, with principal objectives of promoting, servicing and developing Credit Unions in Ireland. It seeks to develop higher standards of Credit Union management, operation and supervision, by advice and direction, in the interests of Credit Union members, bearing in mind that Credit Unions differ: some are very big, some are small and most operate somewhere in the middle[20].

The other Credit Union trade associations on the island of Ireland are the Belfast-based Ulster Federation of Credit Unions (UFCU) and the Credit Union Development Association (CUDA). UFCU was set up in 1995 and operates solely in Northern Ireland. It contains about 50 Credit Unions whose memberships are primarily from the Protestant tradition. CUDA operates in the Republic and was established in 2003. It represents a diverse group of 11 Credit Unions that have chosen, for one reason or another, to break away from the ILCU.

To date, the movement has therefore enjoyed its early adulthood but there is still much to do if we are to see it flourish within the scope of its potential. What follows is a brief exploration of some of the possibilities that are available.

The following section then contains a number of recommendations aimed at providing legislators, public officials, Credit Union executives, Credit Union officials and members with ideas as to how Credit Unions can become ever more active contributors to, and beneficiaries of, community economic and social development.

2. Operating Principles

Séamus P. Mac Eoin continued all his life to contribute to the development of the Credit Union movement that he had done so much to establish. Among his last contributions at national level was the success of his campaign to have a set of operating principles developed and adopted. Among the principles adopted in 1984 was the following, under the heading 'Social responsibility':

> Continuing the ideals and beliefs of co-operative pioneers, Credit Unions seek to bring about human and social development. Their vision of social justice extends both to the individual members and to the larger community in which they work and reside. The Credit Union ideal is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the Credit Union sphere of interest and concern.

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[20] In the preparation of this article, I enquired of the Credit Union Regulator's office at the Central Bank for an indication of the three largest and three smallest Credit Unions in Ireland. Its responded that "All publicly available information released by the Central Bank of Ireland on Credit Unions is published on our website" and it referred me to the ILCU (of which, not all Credit Unions are members). At the time of writing, my enquiry to the ILCU has not elicited a response. On their websites, Health Services Staffs Credit Union (HSSCU) and St Paul's Garda Credit Union each describe themselves as being among Ireland's biggest Credit Unions. Neither posts an annual report or accounts online.

Dundrum Credit Union, which describes itself as one of the biggest Credit Unions in Dublin, posts its annual report and accounts online, this involves total assets of €85.5 million, 85% of which are in the form of member's shares. http://www.dundrumcu.ie/cuweb/wp-content/uploads/Dundrum-Credit-Union-Annual-Report-2011.pdf [last accessed on 14 May 2012]

> Decisions should be taken with full regard for the interests of the broader community within which the Credit Union and its members reside[21].

In 1987, the League's AGM in Cork adopted a policy of encouraging community development and employment initiatives, including the formation of worker co-operatives[22].

This resonated with Mac Eoin 's lifelong determination 'to alleviate poverty and unemployment in the country' which manifested itself in his involvement, not only in the Credit Union movement, but also in the Dublin Central Co-operative Society, National Co-operative Council, Co-operative Development Society. Also, with Paddy Candon of New Ross Credit Union, he helped run the 'think tank' known as 'The 45 Club'.

Note that "Credit Unions", collectivities, if you will, bind themselves to seek to bring about human social development. It is not a principle that Credit Unions should desist from seeking to bring about human and social development, the better, say, to avoid 'crowding out' such activity on the part of individual Credit Union members. Given these operating principles, it is no surprise that the State has organised to facilitate the growth and consolidation of the Credit Union movement, principally by enacting enabling legislation, by providing appropriate regulation within that legislative context and also by way of tax expenditures.

3. Legislation and Regulation

From very early on, a key objective for the League was the enactment of Credit Union legislation to better fit the movement than the Industrial and Provident Societies Acts, 1893. This was achieved in July 1966, when, with Nora Herlihy and other Credit Union pioneers present, President de Valera signed the Credit Union Act, 1966 in to law.[23]

The dramatic growth of the movement quickly led to pressure for an updating of the '66 Act and in 1997, by which time there were over 400 Credit Unions in the Republic, updated legislation was enacted[24].

The Credit Union Act, 1997 (hereafter "the '97 Act") contained substantial changes.. Among those changes, attention was particularly focussed on the new regulatory arrangements and requirement found within Section 35.

3.1 Section 44 of the '97 Act. The Special Fund or 'Local Investment' clause

Section 44 of the '97 Act allowed a Credit Union to establish a special fund to be used by the Credit Union for social, cultural or charitable purposes, including community development[25].

The Explanatory Memorandum to the 1997 Credit Union Bill had the following to say concerning Section 44 of the Bill:

> "Section 44 .... allows a Credit Union establish a special fund to be used by it for social, cultural or charitable purposes, including community development. Under section 44(1), the

[21] Irish League of Credit Unions, Operating Principles (1984).

[22] Irish League of Credit Unions. 50 years of the Irish League of Credit Unions. 2010.

[23] Credit Union Act, 1966

[24] Credit Union Act 1997. Available at: <http://www.irishstatutebook.ie/1997/en/act/pub/0015/index.html> [last accessed May 4, 2012]

[25] http://www.irishstatutebook.ie/1997/en/act/pub/0015/index.html] [last accessed on 06 May 2012]

establishment of such a special fund is entirely a matter for decision by the majority of the members of each individual Credit Union attending and voting at its general meeting[26]."

If implemented, Section 44 (constructed as an 'enabling measure') would locate each Credit Union as a potential agent of community social and economic development in its own 'institutional' right and potentially also, as social finance intermediary. It has always seemed to me that the efforts of a Credit Union, where those efforts are legally based on Section 44, might be complementary to, but distinct from, any such similar efforts as might be made a member or group of members of that particular Credit Union.

Only one from among the many, Tullamore Credit Union, actually created a 'Section 44 Special Fund' in the manner permitted[27] but not before a campaign organised by local community activists had taken place.[28]
Although an early estimate of the likely aggregate value of Section 44 funds was given in response to a Dáil Question in June 1998[29], indicated the initial value of special funds would be in the region of £11.25 million, very different approaches have been advanced as to how Credit Unions might structure a strategic entry into social finance provision.

For example, in 2006, CUDA recommended[30] the development of a Credit Union social finance vehicle, recognising that social finance or funding is quite a specialist activity which is best carried out by competent entities. It should be noted that in 2006, the State launched a Social Finance Fund / Social Finance Foundation[31] with the Credit Union movement excluded and funding provided through the Irish Banking Federation[32].

In 2010, Colm Rapple, a long-time commentator on Credit Union affairs, outlined a proposal whereby Credit Unions – which are not, of course, in the business of supplying risk capital – might, along with other locally based organisations such as enterprise boards and chambers of commerce, establish Business Expansion Schemes type funds. Rapple suggested that "[t]he role of a Credit Union may

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[26] Credit Union Bill 1997, Explanatory Memorandum

[27] Niamh Connolly, "Credit Union first to fund charity from annual surplus", *Sunday Business Post*, 12 December 1999. The article indicates that in 1999, under the Credit Union Act 1997, the Tullamore Credit Union, one of the largest in the country, "become the first to allocate funds from its annual surplus towards local charitable projects" by creating a Community Trust under Section 44 of the Credit Union Act. A figure of £50,000 was allocated for community and charitable initiatives, particularly in those areas where the "Celtic Tiger" had not reached, following the recommendation of its 15-member board (the total surplus for that year had been £2.8 million). The article also notes that "[figures released by the Department of Enterprise, Trade and Employment suggest[ed] that in excess of £11 million could be allocated to Community Trusts by the Credit Union movement."

[28] The decision by Tullamore Credit Union to 'go it alone' and create a Section 44 Fund was taken by the AGM in December 1999. If those voting for the Section 44 resolution that evening thought other Credit Unions would follow, they turned out to be wrong, as to date, no other Section 44 Fund has been created.

[29] The Minister for Enterprise, Trade and Employment in 1998, indicated that there was no material reason, from the outset, that Credit Unions could not have used the enabling provision (deployed their buried talents, as it were) to operate an aggregate or wholesale social finance fund. He indicated:

> "If all Credit Unions in the State affiliated to the Irish League of Credit Unions were to establish in **1998**, the permitted special funds at the maximum levels allowed ....the Registrar has estimated that their initial value would be of the order of **£11.25 million**."

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[30] http://www.cuda.ie/cuda/documents/ACalltoAction-ReinventingCreditUnionsforthe21stCentury-November2006.pdf [last accessed May 4, 2012]

[31] http://www.sff.ie/pdf/SFF_Annual_Report_2010.pdf [last accessed May 4, 2012]

[32] http://www.finance.gov.ie/viewdoc.asp?DocID=4540 [last accessed 06 May 2012].

only be as a facilitator in having a fund established and such a role would depend on any necessary legal and regulatory requirements being satisfied.[33]"

The economist Richard Douthwaite, a co-founder of 'Feasta – the foundation for the economics of sustainability',[34] described various Credit Union approaches to social finance as far back as 1996[35]. One of his descriptions includes an account of the relationship between Tallow Credit Union, in West Waterford, and Tallow Enterprise Group. He indicates that with Credit Union support and operating in an 'unemployment blackspot', this enterprise group developed both a local Enterprise Centre and an Enterprise Park.[36]

For a time, they even ran the area's public library service, in keeping with a policy of continually seeking new ways to enhance the local community and its people by ensuring growth both socially and economically[37].

3.2 Section 35: Regulatory Arrangements and Requirements

Despite the fact that Section 35 of the '97 Act contained new regulatory arrangements and requirements, Credit Unions suffered like any other financial institutions from a 'light touch' approach to regulation that was characteristic of the period (1997 – 2007 approximately).[38] An example of the perils of this 'light touch' can be seen in the Trustee Order amendment of 1998[39], whereby the Minister for Finance facilitated Credit Unions in committing to previously prohibited investment instruments, including what came to be known as 'exotic instruments' (such as the "perpetual bonds"). Some categories of investment made on foot of that liberalisation and between 1998 and 2006 (the year the Regulator moved to 'close the gate') resulted in losses later estimated at "almost 100%"[40] yet no local community investments were made through Section 44 over that same period[41].

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[33] Rapple, Colm. Kick Starting the Economy. Credit Union Focus. Irish League of Credit Unions. Autumn 2010

[34] See http://www.feasta.org/

[35] See Richard Douthwaite, *Short circuit – strengthening local economies for security in an unstable world,* (Green Books, Devon, 1996) The book can also be downloaded from: http://www.feasta.org/ http://www.feasta.org/documents/shortcircuit/index.html?sc4/c4.html [last accessed May 4, 2012]

[36] Ibid. Chapter 4.

[37] http://www.waterford-news.ie/news/ojausnoj/ [last accessed May 4, 2012]

[38] This was a period when State policy seemed bent on facilitating 'making the boom boomer', apparently informed by the 'efficient market' hypothesis, that is, the idea that market forces are more democratic than democratic institutions and the rule of positive law.

[39] S.I No. 28/1998.

[40] Former Credit Union Regulator Brendan Logue, addressing the Joint Committee on Economic Regulatory Affairs of the 30th Dáil on 30 March 2010.

[41] Logue, Brendan. Retired Credit Union Regulator, Evidence to the Dáil Committee on Regulatory Affairs, 30 March 2010 included the following:

> "The position was that under the terms of the Credit Union Act, Credit Unions were authorised to invest only in those instruments which were listed in the trustee order. In 1998, the then Minister amended the trustee order to make it more open for trustees generally to invest in instruments which would be more reflective of the modern world and so on but that had the unintended effect, because of the link between that order and the Credit Union Act, of opening up the gates to all sorts of investments in which Credit Unions could invest. I issued a guidance note in 2006 which demanded the restriction of investments by Credit Unions to certain specified instruments in certain percentages

Former Credit Union Regulator, Brendan Logue, touched on the 'exotic unsuitable investment instruments' debacle in addressing a Dáil Committee on 30 March 2010, reporting to the Committee that "inappropriate investments" had been made in light of these instruments[42] and that the "democratic system within Credit Unions [was] not working."[43]

To date, there have been a large number of cases dealt by the Financial Services Ombudsman in relation to some of the products sold to Credit Unions. The most-well known of these cases was the investment made by Enfield Credit Union on three perpetual bonds at a cost of €1 million.[44] It could be argued, albeit with very broad strokes, that regulation has not yet been devised to appropriately fit the Credit Union movement in Ireland. An important element of achieving this 'fit' will be the enlargement (and 'enfewerment') of Credit Unions as recommended in the April l2012 Report of the Commission on Credit Unions.

4. Proposals to enhance community investment and participation via Credit Unions

In June 2011, the Government established a Commission on Credit Unions to review the future of the movement and make recommendations in relation to the most effective regulatory structure, taking into account the not-for-profit mandate, volunteer ethos and community focus of the Credit Unions, while paying due regard to the need to fully protect depositors' savings and financial stability.

The Commission was to have regard to the particular nature of the Credit Union sector, examine the strategy to underpin its immediate solvency and viability (prepared under the EU/IMF Programme of Support for Ireland) and make recommendations to the Minister for Finance regarding any relevant proposals for restructuring as they arise.

The Commission's final report issued in April 2012. It recommended that Credit Unions should be consolidated and proposed the setting up of a Credit Union Restructuring Board (ReBo) to facilitate this. [45] The report warned that, in the absence of "corrective action" i.e. amalgamations, the financial position of a significant number of Credit Unions would "deteriorate markedly by 2013, due mainly to rising bad debts, poor governance and inadequate buffers of reserves[46]".

Welcoming the Commission's report, the Central Bank – where the Credit Union Regulator is based - supported the view that a planned restructuring of the sector is important to ensure that both individual Credit Unions and the sector overall meet members' needs and indicated that this process should be completed in as short a timeframe as possible.

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but the losses that subsequently emerged were almost 100% in instruments purchased before that date".

[42] http://debates.oireachtas.ie/ERJ/2010/03/30/printall.asp [last accessed 06 May 2012]

[43] http://debates.oireachtas.ie/ERJ/2010/03/30/printall.asp [last accessed 06 May 2012]

[44] *Enfield Credit Union v Davy Stockbrokers.* For more on Credit Union regulation, see the Oireachtas Library Research Service's 'Spotlight' paper No 1 of 2011, which is available onlinehttp://www.oireachtas.ie/parliament/media/michelle/Credit_union_regulation_Spotlight_May_2011.pdf [last accessed o 11 May 2012]

[45] Currently, there are 400 separate Credit Unions organisations in Ireland.
Ilcu.ie [last accessed May 4, 2012]

[46] At the end of 2011, about a quarter of Credit Unions in the republic were reported to be undercapitalised, with 25 considered to be seriously undercapitalised. Report of the Commission on Credit Unions, March 2012.
http://www.finance.gov.ie/viewdoc.asp?DocID=7210 [last accessed May 4, 2012].

In the wake of the Commission's report, Finance Minister Michael Noonan committed to setting up an implementation group to put in place recommendations for an overhaul of Credit Unions and 'bring about the biggest transformation in the history of the Irish Credit Union movement[47]'. The Government committed to putting €500m into the process, to be paid back by the Credit Union movement over a number of years.

A Credit Union Bill is to be published before the end of June 2012, to give effect to changes in regulation and governance outlined in the commission's report.

"The energy of their volunteer members would need to be harnessed to bring Irish Credit Unions towards the mature stage of development seen in movements internationally" the Minister said in an address to 3,000 delegates at the 2012 AGM of the Irish League of Credit Unions[48].

An intention animating the promulgation of this article is to suggest that it would be opportune for the Credit Union (Amendment) Act and the Credit Union Restructuring Board (ReBo) to adopt Credit Union inclusion in the Dormant Accounts Acts ***and*** the activation of the Section 44 'special funds' provisions as principles of better quality governance in a re-structured movement whose best years may well be ahead of it. Ironically, if Section 44 were a deposit in a non Credit Union account, it would be on the point of becoming dormant, having lain forgotten and untouched for 15 years.

4.1.1 Amend the Dormant Accounts Acts to include the Credit Unions, allowing for transfers to Section 44 Special Funds to fulfil Dormant Accounts obligations.

The Dormant Accounts Acts (2001 – 2012)[49] have their origins in the 1999/2000 Parliamentary enquiry into Deposit Interest Retention Tax (hereafter "DIRT"). The enquiry investigated evidence that Irish financial institutions deliberately constructed 'bogus non-resident' accounts for the purpose of depriving the Exchequer of revenue.[50]

Since the establishment of Ireland's oldest bank, the Bank of Ireland, in 1783, it was a simple fact of life that dormant accounts would arise in deposit-taking financial institutions eventually. By the definitions used in the Act, £5 deposited in the Bank of Ireland in 1783 and forgotten about, would already have slipped in to the limbo of dormancy by 1798.

The Dormant Accounts Act followed international precedent in providing a mechanism to manage the existence of such sums, by transfer to a single, statutorily established fund, they not being the property of the institution or its shareholders where they were 'booked'.

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[47] 'Overhaul of the Credit Unions imminent'. Irish Examiner. Thursday 30 April 2012. http://www.irishexaminer.com/business/overhaul-of-credit-unions-imminent-192228.html [last accessed May 4, 2012]

[48] Irish Examiner, Monday 30 April 2012. http://www.irishexaminer.com/business/overhaul-of-credit-unions-imminent-192228.html [last accessed May 4, 2012].

[49] The Dormant Accounts Amendment Bill 2012 is scheduled to complete its passage through te Oireachtas onThursday 05 July 2012 enabling the dissolution of the Dormant Accounts Board to be effected 60 days later.

[50] Statement by the Minister for Finance on the Report of the Committee on Public Accounts (Parliamentary inquiry into DIRT) 30 March 2000. http://www.oireachtas.ie/viewdoc.asp?fn=/documents/x-junk/parliamentaryInquiry.htm [last accessed May 4, 2012].

The transfer of dormant balances to the State – with a guaranteed right of return to the accountholder, their heirs, executors or assignees, should a legitimate claim emerge – follows on a similar provision contained in the 1965 Succession Act, which makes the State the successor of last resort where a person dies intestate. So far, some €4 million has passed to the State under this provision and that sum has, in fact, been amalgamated with the Dormant Accounts Fund.

On the disbursement side, he Dormant Accounts Fund is targeted on tackling disadvantage in three areas: lack of access to education; disadvantage related to disability and disadvantage related to socio-economic circumstances.

Upon the enactment of original Dormant Accounts Act, the Minister for Finance indicated that, in principle, there was no reason whatsoever why the legislation should not apply to Dormant Accounts in Credit Unions. He indicated that,

> "It would be my hope that we can provide for inclusion of dormant Credit Union accounts at a later date, possibly by way of extension of the current scheme by Ministerial Regulation[51]"

It is important to note that the Dormant Accounts **Fund**, managed by the NTMA, and the Dormant Accounts *Board*(as abolished by the Oireachtas on Thursday 05 July 2012) , are distinct and separate, but obviously related phenomena.

The Dormant Accounts Fund – which has been increasing in recent years – will remain in place with responsibility for disbursements passing entirely through the civil service to the Minister.

The primary effect of the Dormant Accounts (Amendment) Act 2011 is abolish the Dormant Accounts Board. It remains to be seen whether this provision will lead to the same 'clustering' in the disbursement of Dormant Accounts Funds, as was argued by some of those who opposed the abolition and as has been noted with regard to allocations from the National Lottery[52].

In August 2011 the Dormant Accounts Board made a submission to the Commission on Credit Unions, in which it stated a case for the Commission to support the Board in its efforts to have the Credit Unions brought within the aegis of the Dormant Accounts Acts.

As an inherent part of this initiative, the Dormant Accounts Board recommended that Credit Unions simultaneously be afforded an 'opt-out 'which would allow Credit Unions use their own "Section 44 Special Funds", as an alternative to submitting dormant account balances to be 'banked' in the NTMA along with remittances to the Dormant Accounts Fund from all other sources. Specifically, the Board recommended as follows: "Bring Credit Unions under the remit of the Dormant Accounts Acts but with the proviso that no Credit Union need transfer dormant account balances from their own General Reserve to the Dormant Accounts Fund where that Credit Union has a "special fund" in place, as per Section 44 of the Credit Union Act 1997 and where the sum in question is transferred to that fund."

This measure was not included in the Dormant Accounts (Amendment) Bill 2011.

4.2.2. Keep the Tax expenditures in favour of Credit Unions.

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[51] Charlie McCreevy T.D., Minister for Finance, Dormant Accounts Bill Second Stage Speech, Dáil Éireann, 20 June 2001. http://www.finance.gov.ie/viewdoc.asp?DocID=1288 [last accessed May 4, 2012]

[52] http://www.independent.ie/national-news/revealed-surge-in-lotto-cash-grants-for-kennys-home-base-3102280.html [last accessed 11 May 2012]

"Surveys carried out by Credit Unions show that people deposit money in Credit Union accounts for the same reason that they do in any other institution, namely to get the best return."

- Minister Charlie McGreevy, Seanad Éireann, Volume 162 - 22 March, 2000

A tax expenditure is a transfer[53] of public resources from the State to a particular body or specific project that results in the reduction of the tax obligations to that particular person, organisation or project has to pay.[54]

Tax expenditures, are also sometimes called taxpayer subsidies and take a variety of forms. Some common forms of tax expenditures are tax credits and tax reliefs. Sometimes these tax expenditures are directed towards the benefit of institutions, such as permitting the income of Credit Unions to be tax-free.

It is Irish public policy to direct tax expenditures, that is, to forego revenue in a number of ways in order to support the Credit Union movement. The Irish League of Credit Unions enjoys the benefit of tax expenditure too, as a 'special case' rather than as a Credit Union[55].

Tax-free status for Credit Union income is not a worldwide norm. In the Republic, the argument in favour of granting tax-free status to the income is because Credit Unions fulfil a societal purpose, including the role they play in providing savings and credit to 'the un-banked', particularly those on low income[56].

Interestingly though, most of the beneficiaries of Credit Union tax free status in the Republic probably are not the financially excluded, but rather the membership-based Credit Unions such as those based in particular employments, many of which are in the state or semi-state sector (e.g.: gardaí, prison service staff, health service staff, teachers and others).

It is also worth mentioning that in addition to these types of tax expenditures, Irish Credit Unions also benefit from the Government's Deposit Guarantee Scheme (hereafter "DGS"). The DGS was extended to cover Credit Union savers (who may hold up to €100,000 in shares and as much again on deposit, which is to say, up to €200,000 per member) with Credit Unions making no payment towards the cost of coverage.

It is a curious fact that one of Ireland's largest Credit Unions, Newbridge - now under the direction of a Central Bank appointed 'special manager'[57] - has declared itself to have derived no benefit from tax expenditures, despite the fact that the Department of Finance's Tax Strategy Group following its update in March 2011, found that the benefit of tax expenditure to the Credit Unions generally, having been considered, should be maintained.[58]

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[53] Although they are transfers, they are called tax expenditures because they represent a cost to the Exchequer in the form of revenue forgone.

[54] "Tax expenditures: Provisions of tax law, regulation, or practice that reduce or postpone revenue for a comparatively arrow population of taxpayers relative to a benchmark tax." For more information see Barry Anderson, "Tax Expenditure in OECD Countries" (slide presentation, 5thAnnual Meeting of OECD-Asia SBO, Bangkok, January 10-11, 2008) available at: http://www.oecd.org/dataoecd/40/6/39944419.pdf [last accessed May 4, 2012].

[55] http://billhobbsie.blogspot.com/2009/12/should-state-continue-ti-subsidise.html [last accessed May 4, 2012]

[56] http://www.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf

[57] A 'Special Manager' was appointed to Newbridge Credit Union by the Central Bank in early 2012. If the recommendation of the Commission on Credit Unions are taken up in full, this may be the only instance ever of such an appointment.

[58] TSG 09/20: Tax Incentives/Expenditures: -

Newbridge Credit Union which, at its peak, had a balance sheet in the region of €200m and was a founder-member of CUDA, the 'breakaway' Credit Union representative organisation, included the following in its Spring 2011 online newsletter:

> .....*no Credit Union has received any Government/ Tax Payer support, yet they continue to provide credit to help members get through difficult times*[59].

The significance of the difference-of-opinion between Newbridge Credit Union and the Department of Finance is accentuated by the reality that many of that Credit Union's members would have been voters in the Dáil constituency of chartered accountant and former Finance Minister, Charlie McCreevy T.D. who was returned as TD for Kildare between 1977 and 1997 before moving to the new Kildare north constituency in 1997. Given the nuances of the PR-STV system, it is rare for a Minister to preside over a Department that holds a view which is the diametric antithesis of the view of an organisation comprising so many of that Deputy's voters.

In 2011, the new government's Comprehensive Review of Expenditure recommended a review of the overlap between tax expenditures and other State supports. [60] It found that in relation to the overlap between tax expenditures and other supports "an integrated review of the effectiveness and interaction of various economic and social supports and tax expenditures could lead to improved support delivery and reduced exchequer cost"[61].

The report recommended that legislation be simplified and that the "administrative provisions (the tax-head model)" [62] be modernised and simplified, noting that "the removal of tax expenditures from tax systems, have the potential to improve the cost effective delivery of Revenue administration."[63]

The question of taxpayer support for Credit Unions has never been high profile in Ireland. The situation is quite different in other jurisdictions, a dramatic example being the US state of Oklahoma, where an illustrative quotation from the website of the Oklahoma Bankers' Association might serve to give a flavour of the debate:

> "There's nothing wrong with a tax-exemption for traditional Credit Unions that adhere to their original mission. But it isn't right for big Credit Unions that have abandoned their original purpose just so they can expand and grow. They operate like any other full-service financial institution and serve anyone who walks in the door, and it's not right that they do so without paying at least some fair share of taxes"
>
> – Beverage, Roger (Oklahoma Bankers Association). 'Banks versus Credit Unions' [Oklahoma, USA] http://www.oba.com/mediagov/news.php?action=story&story_id=1371 [last accessed on 12 May 2012]

8.103 : TAX EXPENDITURES - SAVINGS AND INVESTMENTS
http://taxpolicy.gov.ie/wp-content/uploads/2011/03/09.20.pdf [last accessed May 4, 2012]

[59] http://www.newbridgecu.ie/images/library/documents/08042011-143541.pdf [last accessed May 4, 2012]

[60] Note that in 2009, the Commission on Taxation Report on Tax Expenditures among its first recommendations indicated that "The OECD definition of a tax expenditure...should be adopted". Cited in Micheál L. Collins and Mary Walsh, TAX EXPENDITURES: REVENUE AND INFORMATION FORGONE – THE EXPERIENCE OF IRELAND (TEP Working Paper No. 1211, August 2011). Available at: http://www.tcd.ie/Economics/TEP/2011/TEP1211.pdf [last accessed May 4, 2012]

[61] http://per.gov.ie/comprehensive-review-of-expenditure/ Page 15 [last accessed May 4, 2012]p.15

[62] http://per.gov.ie/comprehensive-review-of-expenditure/ Page 26. [last accessed May 4, 2012]

It is submitted that Comprehensive Review of Expenditure recommendation, if implemented might go a long way towards clearing the filters that give a still-significant Credit Union like Newbridge and the Revenue Commissioners such different views on the value of tax expenditures to the Credit Union movement.

Conclusion

It is an accepted feature of financial service firms the number of accounts regularly exceeds the number of customers and the number of nominal customers exceeds the number of actual customers. A 2005 survey[64] found that only about half of all Credit Unions members actually use their Credit Union account in any given year. This can be due to double accounts, dormant accounts etc. Counties Offaly and Monaghan have been identified as locations where the number of Credit Unions members is greater than the county population.[65]

Frank acknowledgement is needed that Credit Unions are financial institutions first and foremost and, as such, are as likely to have dormant balances build up over time as any other sort of financial institution.

The benefit Credit Unions derive from tax expenditures and the balancing cost of same to the public purse should be researched. If it is found that Credit Unions in practice derive no benefit from tax expenditures, then the State's 'moral authority' to extend the Dormant Accounts Acts and to look for a more dynamic attitude to Section 44 is diminished.

The extension of the Dormant Accounts regime to the Credit Unions is desirable in principle. It will assist in the attainment of best practice in financial management at individual Credit Union level – even if it doesn't add a penny piece to the Dormant Accounts Fund. Administering dormant accounts responsibilities will be less onerous in amalgamated Credit Unions of scale than in the present cohort of hundreds of institutions, a quarter of which appear to be 'struggling'.

The amalgamation of Credit Unions as proposed by the Commission is desirable. As an Offaly man, a county capable of generating more Credit Union members than its own population, I see an amalgamated Co Offaly Credit Union as a potentially powerful development agent, tapping into strong ties symbolised by the green, white and gold county jersey. I see other county jersies being no less potent agents for cohesion and collaboration.

We are still early on the learning curve here: it is only since 1991 that the archaic `ultra vires' rule that applied to local authorities generally, was relaxed, introducing broad powers of general competence for local authorities to act in the interests of the local community.

In this context, a Countywide Credit Union could play a significant role, advancing co-operative principles, together with the Enterprise Board and the Director of Services, working through structures that include representative business and other interests.

The long and distinguished socially progressive impulse within the movement could be facilitated by allowing Credit Union transfer dormant balances into Section 44 Special Funds, available within their

[65] McKillop et al. (2006: 66-68)

own 'common bonds' for social , cultural or charitable purposes, including community development, as the Credit Union Act of 1997 provides.

The proposals set out in this paper are intended to make interested participants of all Credit Union members in the Republic of Ireland in community economic development. This would reflect the protections and benefits afforded by the state for the protection and welfare of Credit Unions members. It would ideally attract even greater numbers to enjoy the benefits and privileges – and responsibilities - of Credit Union membership.[66]

[66] Although it is outside the scope of this research, note the ILCU and of some ILCU members do excellent work in fostering Credit Unions in developing countries.