Viewpoint

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Building Capacity in the Voluntary Section

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At a time when most consumers of financial services are becoming more sophisticated, most voluntary organizations remain woefully uninformed and inefficient in the management of their financial resources. Whether this is due to lack of familiarity with the operation of financial markets, the rapidity with which funds received are spent or a general antipathy to financial matters on the part of those who work in the non-profit sector, the end result is that such organizations do not generally find attractive investment arrangements for their available funds or enjoy the benefits of expert advice in their financial management. Moreover, such organizations often experience difficulty in borrowing funds, even if only to meet emergency cash-flow requirements until funding from committed sources is forthcoming.

Both intentionally and by default, financial institutions tend to discriminate against voluntary organizations and groups. Some discrimination arises because traditional financial institutions lack experience with such groups and there has, therefore, been little opportunity for the necessary exchange of information or the growth of personal confidence which leads to good financial relationships. But even without these difficulties financial institutions simply tend to favour established customers whose financial performance is based on the understood and familiar profit motive over not-for-profit organizations.

Over the years governments have implicitly recognized the bias against non-traditional enterprises and have developed a variety of grant, subsidy and guarantee programs designed to induce changed behaviour in the private capital markets. A more useful alternative would be the development of a new financial institution which would be organized to meet the needs of the philanthropic sector.

Financial intermediaries (chartered banks, trust companies, life insurance companies and credit unions) finance their operations by accepting deposits and other forms of "borrowing" and making loans and other forms of investment, subject to regulatory requirements designed to ensure their continuing solvency. In turn, they pay interest on their borrowings and receive interest on their loans and investments. It is the "spread" between these rates which is their primary source of income. In addition, in recent years such intermediaries have increasingly relied upon the income generated through the provision of a variety of advisory and financial-management services as a major source of revenue.

Accepting the premise that the voluntary sector is under-served by existing financial intermediaries, the opportunity to create a new intermediary designed to meet the needs of voluntary organizations becomes obvious. The simplest mode of operation for such an intermediary would be a credit union. Such an institution could accept deposits and also provide a variety of services and facilities extending well beyond those currently available from traditional financial intermediaries.

The organizational structure and legal obligations of a credit union are relatively straightforward. In Ontario, credit unions are incorporated under the *Credit Unions and Caisses Populaires Act* which requires them to file articles of incorporation and obtain a certificate of incorporation issued by the Minister of Consumer and Commercial Relations. Membership is restricted to persons having a "common bond of occupation or association" or to persons within a "well defined neighbourhood or community". Given the rapid growth of the voluntary sector, a credit union which embraced, as its "community of interest", non-profit organizations (foundations, charitable organizations and community groups) could generate significant revenues by charging fees for services and generating revenues from its assets. Expanding its membership to individuals who were members of the constituent organizations would further broaden the market base.

The articles of incorporation of a credit union must state that its objects and purposes are:

(i) the promotion of co-operative enterprise;
(ii) the facilitating of the accumulation of savings;
(iii) the creation of a source of credit for its members at conscionable rates of interest; and
(iv) the provision of full financial services for its members.

In addition, credit unions are invested with certain ancillary powers, including those normally exercised by a financial intermediary.

While only 20 initial subscribers with a board of five directors are necessary to incorporate a credit union, ministry officials are reluctant to grant an application for a new credit union unless it can be demonstrated that there is the potential for a minimum membership of 500.

The credit union attracts capital from its members through deposits and by the sale of shares. Such shares resemble shares in a co-operative rather than shares in a business corporation, since each credit union member has only one vote regardless of the number of shares held and shares are redeemable at any time, subject to due notice and solvency requirements. In addition to deposits and share subscriptions, a credit union is permitted to borrow (subject to regulatory restriction) up to 50 per cent of its total of paid-in capital, deposits and surplus. A credit union may make investments in the same sorts of instruments (subject to the same restrictions) as most other financial institutions.

The legislation also contains detailed requirements concerning the internal administration of a credit union. These include provision for directors and officers and credit and supervisory committees. Standards of care are specified for each of these bodies. An auditor must be appointed for a credit union with over $500,000 of paid-in capital in deposits or one which chooses to operate with negotiable orders, i.e., provides its members with chequing privileges. The legislation provides for the maintenance of liquid-asset reserves equal to the aggregate of at least 10 per cent of the amount of deposits, shares and borrowings of the credit union and all credit unions are required to participate in the Ontario Share and Deposit Insurance Corporation. Finally, a credit union is required to file annual statements and is subject to periodic inspection by ministry officials.

The idea that the voluntary sector could create and support its own financial intermediary is likely to be greeted with apprehension among potential constituents and regulatory bodies alike. It is to be hoped that such apprehension will not prevent serious consideration of the benefits of such a credit union both in the provision of needed services and in the building of capacity in the voluntary sector.

Services

The proposed credit union could provide virtually all the facilities and services now available through traditional financial intermediaries. These include chequing privileges, custodial and safekeeping services, loans and the management of investment portfolios.

In addition, it could provide valuable new services. Many voluntary organizations have little borrowing experience and, as a result, often find themselves at a disadvantage when they encounter short-term cash-flow problems. A financial institution designed to meet the borrowing requirements of voluntary organizations could be more responsive to those needs than existing lenders. For example, in Minnesota, a number of foundations have contributed to the Minnesota Non-Profits Assistance Fund which makes loans of up to $20,000 at reduced interest rates to organizations which have short-term cash-flow problems because of delays in government funding. The Denver Community Cash Flow Fund makes similar prime-rate loans of up to $50,000. One of the fund's sponsors, the Piton Foundation, even provides subsidies to lower interest rates in special circumstances.

As well as offering improved services, and perhaps more importantly, the credit union could earmark a proportion of its revenues or attract specific grants to build a revolving "self-help" fund, which might provide the risk capital which would enable new voluntary organizations to emerge.

A voluntary sector credit union would also provide a means of assisting voluntary organizations to improve their money-management skills and resources. Credit union staff could help member organizations develop realistic cash-flow and investment plans and offer the professional advice required for sound decisions about selection of an employee benefit plan, the purchase of property or other major financial decisions.

Such assistance presupposes that the credit union would need to acquire professional competence in cash and credit management and financial planning for its own operations. Other services such as word processing and accounting systems, also necessary for its own operations, could be made available to members at substantially lower costs than commercial alteratives. Insurance coverage for disability, personal, automobile or home insurance and health and dental programs could be obtained at significant discounts on a collective basis.

Other advantages might become apparent as the credit union prospered. For example it could generate and disburse funds for the work of member organizations. This service could be provided in a variety of ways without compromising the financial integrity of the institution. For example, credit unions are permitted to establish and market registered retirement savings plans (RRSPs). The proposed credit union could, therefore, establish an RRSP which would offer members a return slightly below that available elsewhere and could also charge management fees on this and other services it provided. All or a part of the resultant revenues could be set aside for distribution to member organizations.

Finally, increasing the capacity of the voluntary sector is central to this concept and arises from the view that new institutions are essential to the development of a strong and independent "third sector" in our society. Such institutions should promote resource sharing and co-operative action by their memberships. They should also provide a credible forum for the exchange of information critical to the interdependent functioning of constituent organizations. The Canadian Centre for Philanthropy was founded in 1981 as a first step in the development of this new type of voluntary sector institution. The proposed credit union would be another significant adavance.