

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE
Faculty of Economics and Management
Department of Economics



Diploma Thesis Title:

Saving and Credit Co-operatives: Possibilities in the Czech Republic

Author of Thesis: Abera Mekonen Dessie

Diploma Thesis Supervisor: Ing. Bohuslava Boučková, CSc
Department of Economics

© 2010, CULS

Declaration

I declare that I have worked on my diploma thesis titled "Saving and Credit Co-operatives: Possibilities in the Czech Republic" by myself and I have used only the sources mentioned at the end of the thesis.

In Prague on date 9.4.2010

Abera Mekonen Dessie

Acknowledgement

I am grateful to my thesis supervisor Ing. Bohuslava Boučková, CSc. for her valuable advice, comments and suggestions during my work on this Thesis. And also I would like to thank my family and friends for their patience, advice and support during my study.

Spořitelní a úvěrní družstva: Možnosti v Česká Republika

Saving and Credit Co-operatives: Possibilities in the Czech Republic

Souhrn

Po roce 1989, zejména během let 1996-1999, nastal v České republice příznivý růst v oblasti spořitelních a úvěrových družstev. Nicméně, od roku 2000 mnoho těchto družstev zkrachovalo nebo bylo zlikvidováno, což zapříčinilo veřejnou nedůvěru v toto odvětví. Otázkou je, jak by se tyto družstva mohly stát udržitelnými, aby se mohly vypořádat s finančními výlukami a aby mohly vybudovat komerčně konkurenční služby. Tato diplomová práce se pokusila naznačit možnosti růstu družstev v České republice pomocí statistické, finanční a teoretické analýzy. Z těchto analýz byly identifikovány následující silné stránky a příležitosti přispívající k růstu těchto družstev. Jsou to: ochrana vložených peněz odborových organizací, jejich vysoká likvidita, známka růstu, výrazný dohled, podpůrná pravidla a předpisy od roku 2004. Růst družstevních záložen je proto možný buď přijetím dalších členů do již existujících družstev nebo rozšířením svých služeb do dalších lokalit. Dále založením nových družstevních záložen v oblastech, které jsou vyřazené po finanční stránce a založením pracovních míst například v organizacích, průmyslu a firmách. To by bylo možné hlavně s určením sociálních cílů.

Klíčová slova: Družstvo, spořitelní a úvěrové družstvo, družstevní záložna, členství, sociální kapitál, záštita, majetková hodnota a likvidita

Summary

There had been a promising growth of Saving and Credit Co-operatives sector in the Czech Republic after 1989 especially during 1996-1999. But since 2000 many of them have been bankrupted and liquidated which created public distrust in the sector. The main issue is how sustainable Financial Cooperatives could be locally to deal with financial exclusions and to build commercially competitive services. This Diploma Thesis tried to indicate possibilities for Saving and Credit Cooperatives growth in the Czech Republic by making statistical, financial and theoretical analysis. From these analyses, the following strengths and opportunities for Credit Unions growth were identified. There are: safe protection for depositors' money by Credit Unions (CUs), high liquidity of CUs, sign of growth, strong supervision, supportive rules and regulations since 2004. So growth of CUs is possible either by admitting more members to the existing CUs or expanding their services to the other localities. Also the establishment of new CUs in those areas of financially excluded localities and work places such as organizations, industries and firms could be possible mainly with social objectives.

Keywords: Co-operative, Saving and Credit Co-operative, Credit Union, Membership, Social Capital, Protection, Asset Quality and Liquidity

Acronyms

SCCs-Saving and Credit Co-operatives

CU-Credit Union

EU-European Union

WOCCU-World Council of Credit Unions

PEARLS- Protection, Effective financial structure, Asset quality, Rates of return and cost, Liquidity and Sign of Growth

SWOT-Strength, Weakness, Opportunities and Threats

CNB-Czech National Bank

ICA-International Cooperative Alliance

OSSCC-Office of Supervision Saving and Credit Co-operatives

CGAP-Consultative Group to Assist the Poor

VOCA-Volunteers in Overseas Cooperative Assistance

USAID-United States Agency for International Development

UN-United Nations

WB-World Bank

IMF-International Monetary Fund

ILO-International Labour Organizations

CACR-Cooperative Association of Czech Republic

DGRV- German Cooperative and Raiffeisen Confederation

Content

1. Introduction	1
1.1 Coverage of the Study	1
1.2 Significance of the Study.....	1
2. Objectives of Thesis and Methodology	3
2.1 Objectives of the Study.....	3
2.2 Methodology of the Study	3
2.3 Sources of Data and Limitations of the Study	4
3. Literature Review	5
3.1 Historical Background of Saving and Credit Co-operatives	5
3.2 Expansion of Saving and Credit Co-operative Idea	7
4. Concept of Saving and Credit Co-operatives	10
4.1 Concept of Co-operatives	10
4.2 Co-operatives Values and Principles	10
4.3 Types of Co-operatives	11
4.4 Saving and Credit Co-operatives	12
5. Roles of Saving and Credit Co-operatives in Socio-economic Development	14
5.1 Creating cooperation and Social Capital	14
5.2 Empowerment of Local Community Economically.....	15
5.3 Other Roles.....	16
6. Saving and Credit Co-operatives Movement in European Union	18
6.1 Origin and Development of Co-operatives	18
6.2 Financial Co-operatives	19
6.3 EU Policy Directions for Co-operatives Development	20
7. Historical Background of Saving and Credit Co-operatives	21
in the Czech Republic	21
7.1 Origin and Historical Development of Co-operatives.....	21

7.2 Major Types of Co-operatives in the Czech Republic	23
7.3 Co-operatives Associations	27
7.4 Legislation and Supervision of Financial Co-operatives	28
8. Potential and Possibilities of Saving and Credit Co-operatives in the Czech Republic.....	30
8.1 Credit Unions Performance Trends in the Czech Republic (1996-2008).....	30
8.2 Relative Comparison of Credit Unions: the case of Poland and the Czech Republic	37
8.3 Financial Analysis of Credit Unions Sector during 2004-2008	42
8.3.1 Objectives of the Analysis	43
8.3.2 Conceptualizing Financial Ratio Tools of Analysis and Methodologies	43
8.3.3 Discussion of Results	48
8.4 Opinions and ideas from Intellectuals and Officials about Credit Unions in the Czech Republic.....	53
8.5 SWOT Analysis of Saving and Credit Co-operatives Performance in the Czech Republic	55
9. Conclusion and Recommendation	56
9.1 Conclusion	56
9.2 Recommendation	58
10. Bibliography	60
11. Supplements	63

List of Figures and Tables

Figure 1: Number of Credit Unions Trends during 1996-2008.....	32
Figure 2: Trends in the number of membership of CUs during 1996-200.....	33
Figure 3: Deposits by members and loan to members performance trends of CUs during 1996-2008.....	35
Figure 4: Percentage growth in numbers, membership, and deposit and loan disbursement of CUs during 1996-2008.....	36
Figure 5: Relative Comparison of Credit Unions growth for Czech Republic and Poland during 1996-2008.....	39
Figure 6: Relative Comparison of CUs membership growth for Czech Republic and Poland during 1996 to 2008.....	40
Table 1: PEARLS Financial Ratios for CUs Comparative Analysis of the Czech Republic with WOCCU international Standards.....	49
Table 2: SWOT Analysis for Credit Union in the Czech Republic during 2004-2008.....	55

1. Introduction

1.1 Coverage of the Study

Financial cooperatives such as Saving and Credit Co-operatives (SCCs) offer an important opportunity to people to work closely together for their own mutual benefit. Even though there are a lot of financial institutions supplying credit with a high cost in the Czech Republic, as one of the developed countries, most of them are profit oriented institutions which exclude low-income and middle income groups like farmers, wage earners, pensioners and so on. So Saving and Credit Cooperatives owned by members and local community should be assessed as an alternative to high cost credit supplies. This is a potential area which is not yet fully exploited and which should be explored to indicate its potential in empowering a low-income local community.

This study entitled as '*Saving and Credit Co-operatives Possibilities in the Czech Republic*' is concerned with examining the performance of saving and credit cooperatives, the existing potential in the country and to recommend possibilities for sustainable co-operative development. The study has mainly 9 parts. The first part, the introduction starts with a brief explanation of the scope and significance of the study. The second chapter deals with the objectives of the study, methodology of the study and sources of data. The third chapter tries to give some highlights on the development of saving and credit cooperatives ideas by assessing some literature from the theoretical and historical perspectives in the World. The fourth chapter presents the theoretical concepts of saving and credit cooperatives briefly. The fifth part deals in general with some socioeconomic roles of Saving and Credit Cooperatives. An assessment review of Saving and Credit Cooperatives development in the European Union (EU) and Czech Republic has been done in the sixth and seventh chapters respectively. The eighth chapter deals with a discussion about the core issues of the study on Saving and Credit Co-operatives possibilities in Czech Republic. In chapter eight, Saving and Credit Unions performance analyses, discussion of some statistical findings and SWOT analyses were carried out. The final part of the study summarizes briefly the main research findings and indicates some of the recommendations from the study. At the end bibliography and supplement will be annexed.

1.2 Significance of the Study

Today, there is a view for saving and credit cooperatives in both developed and developing countries which emphasizes the great importance of this form of organization to the economic progress of nations. So, it is the potential areas which are not yet well exploited which should be assessed to indicate the

possibilities of empowering low-income local community by developing social capital in the present day environment.

This title was selected as a case study on the Czech Republic could be carried out in order to acquire some information about this country's performance in the Credit Union Sector. In addition to this, as the researcher is a foreign student, this case study was selected in order to have easy accessibility to research data, written literature and other information in order to obtain better results.

First of all, the study has a great importance specifically for the country on which the case study is carried out in identifying relevant issues and the possible options to formulate policy, plans, programs and strategies with regard to Saving and Credit Cooperative development. And also it has a significant importance for the researcher's future career in his country (Ethiopia) as now the country emphasizes and supports the development of cooperatives. It was supposed that, the findings of this research thesis would be useful for both countries. In general, the findings of this research are important for policy makers, planners, researchers, scholars, co-operative societies, professional practitioners, National and Regional governments, Non-Governmental Organizations, Civil Societies, UN Organizations and for Czech University of Life Science as a research document.

2. Objectives of Thesis and Methodology

2.1 Objectives of the Study

The main objective of the study is to explore existing opportunities and possibilities for the expansion of saving and credit cooperatives in the Czech Republic where as the specific objectives of the study are:

- To make an assessment review of the historical background of Saving and Credit Co-operative in the Czech Republic,
- Analysis of current status and performance of Credit Unions using current statistical data,
- To conduct financial analysis using relevant financial data,
- To make a relative comparison of the Czech Republic Credit Union sector performance with that of a selected better performing neighboring country,
- To identify existing strength, weaknesses, opportunities and threats of the performance of Credit Unions and
- Finally to indicate the existing potentialities and possibilities for development of SCCs in the Czech Republic.

The hypothesis behind the study is stated as, "*There exists growth potentialities and possibilities for Saving and Credit Co-operatives in the Czech Republic*".

2.2 Methodology of the Study

This study involves a statistical and financial data analysis as well as a SWOT analysis. The methodological tools of the analysis involve statistical data tables, figures, and financial ratio indicators of the saving and credit performance of cooperatives based on historical data. The financial ratios were utilized for the Czech Republic to do a benchmark comparison with the World Council of Credit Unions (WOCCU) ratio standards and these ratios were computed from the income statement and balance sheets of the Credit Union Sector. These ratios have been utilized by WOCCU since 1990 to monitor the activities of the Credit Union sector world wide and these are called **PEARLS ratios**. PEARLS measures 6 key areas of CUs financial performance functions namely Protection, Effective financial structures, Asset quality, Rates of return and cost, Liquidity and Sign of growth which abbreviated as PEARLS.

Financial ratio analysis was utilized to identify the existing strength and weakness and the profitability of sector to indicate future potential for the growth of Credit Unions. Additionally, SWOT analysis of SCCs Performance in the Czech Republic has been utilized as a tool of analysis.

2.3 Sources of Data and Limitations of the Study

The statistical and financial data for the study were compiled mostly from secondary sources. These secondary sources were mainly official web-sites of the Czech National Bank (CNB), the publications of the Co-operatives Association of the Czech Republic, World Council of Credit Unions and International Co-operatives Alliance official web-sites. This study was also supported by qualitative data (ideas and opinions) about CUs were obtained from officials and intellectuals. To inquire ideas and opinions, discussion was made with CNB concerned officials from Financial Market Supervision-Credit Institutions Supervision division and a mini survey was done using a leading questionnaire to get the opinion and ideas of officials and intellectuals about CUs performance in the Czech Republic. The survey was made on 20 respondents from two institutions namely Czech University of Life Sciences Faculty of Economics and Management on 14 intellectuals and also from the Co-operatives Association of the Czech Republic on 6 officials.

Many literatures about Saving and Credit Co-operatives in the Czech Republic were written in Czech language and some official web-sites are also designed in Czech like the Co-operatives Association of Czech Republic web-site which make difficulties for the author as he does not know Czech language well. And also the barrier of language for researcher created setback to conduct survey with members of CUs and Public.

3. Literature Review

In the now-developed and developing countries of our world, cooperatives had been developed in different ways such as Consumer, Housing, Utilities, Insurers, Retailers, Producers, Workers, Marketing, Saving and Credit, New generation (processing) cooperatives and so on. Even though co-operatives appeared differently, this study concentrated on Saving and Credit Co-operative development review from both theoretical and historical perspectives.

3.1 Historical Background of Saving and Credit Co-operatives

Saving and Credit Co-operative is not a recent development as it provides community members with opportunities to bring about changes in their socio-economic environment. Most of the literatures were written on Saving and Credit Cooperatives appear as Credit Unions, Credit cooperatives, Financial Cooperatives, Cooperatives Bank, microfinance or micro-credit. Even though they were written differently, all of them dealt with financial mobilizing and lending to its members mainly with different extent. *"Savings and credit cooperatives are user-owned financial intermediaries. They have many names around the world, including credit unions, SACCOs, COOPECs, etc. Members typically share a "common bond" based on a geographic area, employer, community, or other affiliation. Members have equal voting rights, regardless of how many shares they own. Savings and credit are their principal services, although many offer money transfers, payment services, and insurance as well. Sometimes savings and credit cooperatives join together to form second-tier associations for the purposes of building capacity, liquidity management, and refinancing. Second-tier associations also play a useful monitoring role"*(CGAP, 2005, p.1).

Income is essential to meet basic needs in a sustainable manner. Income is generated by individuals who have an opportunity to take part in economic activities. It is possible to save income if there is an adequate level of income. On the other hand, access to financial services and markets is an essential prerequisite for self-sustained life. Poor people have a considerable productive potential which can be mobilized by means of self-help approaches. The locally initiated savings and cooperatives banks which accepted savings to be deposited and granted as microcredit were the first microfinance institutions in the world in sustaining the life of poor (Armbruster, 2005). *"Dynamic economic growth that works for the poor regions and the poor nationally requires credit cooperatives and other forms of locally-owned banking institutions tasked with serving local small enterprise interests"*(McIntyre, 2006).

As it was written in many literatures, *Financial Cooperatives* as self-help institutions were originally founded out of deprivation or because of the need to optimize the economic position of the individual member based on solidarity in line with the economic principles of self-help, individual responsibility and self-governance which resulted in better access to financial services and markets. The development of microfinance to enable the poor dated back since 17th century. In Ireland, loan funds emerged in the 1720s to enable the poor, which gradually disappeared in 1950s. In the case of poor Germany in 1778, microfinance was originated as informal sector in three areas: community based savings funds; and two movements of savings and credit cooperatives (rural and urban). The community-owned financial institutions started during the late of the 18th century which expanded to provide credit business, including agricultural lending in Germany. In Europe developed mostly as all informal and small scale savings clubs, among them the box clubs in England during the 18th century (Seibel, 2003).

Historically, member-owned cooperative banks have played a major role in smoothing the challenges of rapid economic transformation and have contributed to a high degree of economic and social integration. Savings and Credit Co-operatives first appeared in Germany in the 1870's. *"Credit unions are not-for-profit, financial co-operatives that offer low-cost financial services to their members. They are based on international co-operative and democratic principles which have remained essentially unchanged since the days of the co-operative pioneers of the nineteenth century. The first known credit union was set up in Heddesdorf, Germany in 1869. Since then, they have developed in two distinct but related directions. In most European countries, they became the European co-operative banks. These are now dominant consumer financial providers that serve the general public"*(Jones, 2001, p.1).

The founders of credit cooperative movement were *Hermann Schulze-Delitsche*, who established a credit cooperative for minor artisans and the urban middle classes, and *Freidrich Raiffeisen* was the founder of the rural credit cooperative in Germany (DGRV, 2005). *"After the hunger year of 1846/47, Raiffeisen and Schulze-Delitzsch reinvented the wheel of microfinance: the former in rural areas, creating rural savings and credit cooperatives, originally called credit associations (Darlehnsvereine), later known as Raiffeisenkassen and now Raiffeisenbanken; the latter establishing urban savings and credit cooperatives, now called Volksbanken (people's banks)"* (Seibel, 2003).

Both *Schulze-Delitzsch* and *Raiffeisen* approaches practiced in common, the democratic principal of one person one vote and unlimited liability of members of co-operatives. *Schulze-Delitzsch* was a liberal politician, believed in open membership which was urban based salary earners, urban traders and artisans.

Schulze-Delitzsch Cooperatives model was operationally similar to profit finance companies emphasized on expensively priced and redeemable shares which issued short term loans with the only difference being that they were member-owned with a one person one vote system of voting (Jazayeri, 2006). In his Cooperatives Model, profit motive and the payment of dividends played a key role which did not achieve high loan recovery rates and those survived cooperatives were transformed into public shareholding companies.

Raiffeisen was religious and believed in cooperatives that targeted at the rural poor mostly small farmers, local artisans and small rural traders. Local teachers and priests were also members of cooperatives. His cooperatives idea was strictly driven by high social ideals of service, voluntary labour by office holders, and social incentives. The cooperatives bank emphasized the growth of institutional reserves and most of the surplus was reinvested as opposed to paying dividends to shareholders (Jazayeri, 2006). The organization was based on mobilizing member savings in order to make low cost and affordable loans and free the members from usury that was prevalent in rural Germany at that time. The types of loans were largely long term as well as short term with flexibility. *Raiffeisen* banks with cooperative ownership and social objectives, recorded high loan recovery and low chance of loss due to members' savings outweigh loans in most years, many farmers were using lines of credit or overdrafts that did not require many formal procedure, carried out face-to-face business enabled to develop strong trust with its members, emphasis on supporting central institutions (regional and national unions, centralized wholesale societies, and regional and national banks for the settlement of payments).

3.2 Expansion of Saving and Credit Co-operative Idea

After the idea of Financial Cooperatives was founded in Germany, it had been expanded to other European and North American countries. In Italy, the known economist and financier *Luigi Luzzatti* (1841-1927) was established credit cooperatives based on the principles of his two German predecessors. After the consumer cooperative, the credit cooperative was the most common type of cooperative to be found in the modern world, including the third world. This form of co-operative has been established in both rural and urban districts by labor unions and other organizations, including government bodies because it provides financial services for large groups of people for various purposes (Galor, 2003).

Then credit cooperatives idea moved to North America in 19th century with European immigrants. It played a major role in the United States and Canada in fighting usury and enabling millions members to have access to consumer loans and build equity in housing and small businesses (Jazayeri, 2006). Canada, the

United States, Australia and Ireland have the most established Credit Co-operatives movements. In many regions of these countries SCCs are much larger than the commercial banks. In North America, members of co-operatives have a much more local and autonomous structure than their European types. They were based on a strong notion of a common bond, understood as a relationship that defines a certain unity between the members. Membership of a credit union in fact is restricted to people who share the common bond. It is based on either living or working in a particular locality, being employed by a particular employer, following a particular occupation or being a member of an association or society. Credit unions as known in Britain, Ireland and Eastern Europe, developed out of North American model (DGRV, 2005).

According to Jones (2001), Credit unions were found in 87 countries throughout the world which had some 85 million members. In Europe, the strongest was in Ireland, where around 44% of the population are members and more than 550 credit unions had collectively more than IR£2.6 billion in assets. In Central and Eastern Europe, the credit union movement was growing fast. In Poland, in just four years(1992-1995), 220 credit unions have been established, serving almost 260,000 members and having assets amounting to \$158 million (US). For Poland at time, Credit unions are the fourth largest financial service provider in the country. Similarly in the Czech Republic, in March 1999, there were 77 credit unions with over 70,880 members. Credit union movements have also been established in Russia, Romania, the Ukraine, Latvia and Lithuania and are emerging in Albania, Slovakia, Macedonia and Georgia (Jones, 2001).

The major credit unions in Britain were organized by employees in local government or working for the police force, for bus companies, as taxi drivers or for British Airways. The largest work based credit union in Britain was for example, Glasgow Council Credit Union and in Scotland serving employees working for the municipal authority which has 10,000 members and over £11 million in assets (Jones, 2001). At the end of 20th century, in Britain Credit Unions was highly growing sector and many of them were to enable disadvantaged people but were not business oriented, did not have managerial and business skills. According to Jones (1999) research, to achieve sustainable credit union development, the credit unions needed to adopt a more business and professional approach if they were to realize their potential to serve low income communities effectively. If Credit unions need to achieve their social goals, they must succeed first as businesses by offering quality financial services and required support from all stake holders. Jones promoted in his research findings commercialization of credit unions and a radical restructuring of their financial and organizational management (Jones, 2005).

Since 1990, there was a shift in outlook which promoting and organizing saving and credit co-operatives and focusing on the needs and desires of the society by enlarging the common bond of association to profession and community. It was in fact started with the demand of NGOs in order to support low income groups and to sustain the benefits by creating income generating activities.

The literatures were reviewed above, as a general emphasized that:

- Financial cooperatives have been originated out of deprivation to address economic position of the individual member based on solidarity in line with the economic principles of self-help, individual responsibility and self-governance in certain Localities.
- Credit Unions have significant contribution based on localized saving-investment cycles in financing local consumption and production in the face of the pressure of globalization.
- Credit Unions are high cost loan replacement scheme enables people to free themselves from the high interest charge loans are taken from home credit companies and other loans companies.
- For sustainable Credit Union development, the credit unions should adopt a more business and professional approach than only concentrating on traditional principles.
- In the context of today's globalization, cooperatives ideas are to deal with local(regional and national) needs but they are facing competition from larger commercial organizations both domestically and internationally.

Today, it is clear that credit and saving co-operatives are facing fundamental problems of basic concepts as the nature and aim of the cooperative as well as its structural and the principles on which it operates. These problems are severe managerial problems, interface with other financial institution, globalization, lack of business ethics and poor legislation or policy support. Another key problem is the credit and saving co-operative's inability to initiate projects for increasing revenues, both via the use of accumulated savings and by acting as a channel for transferring outside sources of finance to its members (Jones, 1999 and Galor, 2003). The main problems here are how sustainable saving and credit Cooperative(credit unions) could be possible in financially excluded local community as replacing high cost loan by building commercially competitive services and efficient management system through building localized savings and financing of local activities.

4. Concept of Saving and Credit Co-operatives

4.1 Concept of Co-operatives

Even though the main concern is to conceptualize Saving and Credit Co-operatives, firstly the concept of Co-operative as a general was explained. According to International Co-operative Alliance (ICA), Co-operative is defined as “*an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise*”. From this definition people acting together to meet the common needs and aspirations of its members, sharing ownership, making decisions democratically and creating value for customers. In order to understand what a co-operative is and what makes a co-operative different from other forms of business; we need to understand some key concepts related to co-operatives such as Co-operatives Value and Principles.

4.2 Co-operatives Values and Principles

Values

According to ICA 1995 review; Co-operatives values are self-help, self-responsibility, democracy, equality, equity and solidarity which generated from tradition of their founders, believe in the ethical values of honesty, openness, social responsibility and concern for other society.

Principles

For *Rochdale Equitable Pioneers* there were 8 Principles of Co-operatives which ensured consumers sovereignty and their commercial sources. These principles were:

1. Open membership,
2. Democratic control (one-member, one-vote),
3. Payment of fixed and limited interest on capital,
4. Distribution of surplus, after payment of interest and expenses, to members in proportion to their purchases,
5. Cash trading,
6. Commitment to Sale pure and unadulterated goods at retail prices,
7. Provision for education and
8. Political and religious neutrality (Birchall, 1997). These Principles were reviewed and adopted by International Co-operatives Alliance (ICA) in 1937 and updated in 1966 and 1995 which are guidelines for co-operatives and by which co-operatives put their values into practice according to ICA.

The old versions of co-operative Principles were amended from 8 to 7 and have been adopted currently by ICA. These principles are explained as follows according to ICA (1995) version as it was cited in ICA web page.

1. *Voluntary and Open Membership: Co-operatives are voluntary organizations, open to all persons, who able to use their services and willing to accept the responsibilities of membership, without gender, and social, racial, political and religious discrimination.*
2. *Democratic Member Control: Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions.*
3. *Member Economic Participation: Members contribute equitably to and democratically control the capital of their co-operative of which capital is the common property of the co-operative. Members usually receive limited compensation, if any, and allocate surpluses for purposes of developing their co-operative, benefiting members and supporting other activities.*
4. *Autonomy and Independence: Co-operatives are autonomous, self-help organizations and controlled by their members.*
5. *Education, Training and Information: Co-operatives provide education, training and information for their members, elected representatives, managers, and employees, so that they can contribute effectively to the development of their co-operatives.*
6. *Co-operation among Co-operatives: Co-operatives serve their members and strengthen the co-operative development by working together through local, national, regional and international structures and*
7. *Concern for Community: Co-operatives work for the sustainable development of their communities.*

4.3 Types of Co-operatives

Co-operative is a type of an enterprise can do any business activity. There are many types of co-operative, each serving their members' in economic, social and cultural needs and aspirations in different ways. Traditionally, co-operatives are operating as agriculture, fisheries, consumer, financial services, housing, building, and production (workers) co-operatives.

Currently, co-operative activity expands its activities in the areas of car-sharing, child-care, health and social care, funeral, orchestras and philharmonics, schools, sports, tourism, utilities (electricity, water, gas, etc.), and transport (taxis, buses, etc). So co-operatives can be typified depending on the purpose of their establishment. For instance housing cooperatives to provide housing facilities, financial co-operatives to provide financial services for those excluded society, and

also typified based on target users like consumer, producers cooperatives and so on (Briscoe and Ward, 2000).

4.4 Saving and Credit Co-operatives

The concept of saving and credit co-operatives as mutual economic associations was first propagated by *Hermann Schulze-Delitzsch* and *Friedrich-Wilhelm Raiffeisen*, in Germany around mid-of 19th century. According to them, Credit Co-operatives are not for profit and they are financial co-operatives that offer low-cost financial services to their members. They are based on international co-operative and democratic principles which have remained essential since the days of the co-operative pioneers of the nineteenth century. The first known financial co-operative was established in *Heddesdorf*, Germany in 1869. In most European countries, they became the European co-operative banks which are now dominant consumer financial providers that serve the general public (Jones, 2001). As the main concern of co-operative is to promote the interests of their members, it promotes specially the interests of those disadvantaged groups and contributed to improve the quality of their lives.

The Phrase Credit Co-operative or Saving and Credit Co-operative or Financial Co-operative or Credit Union are synonym as it was written in different literatures for the co-operative that is involving in saving mobilization and providing credit services for its members. *"A credit union is a cooperative financial organization owned and operated by and for its members, according to democratic principles, for the purpose of encouraging savings, using pooled funds to make loans to members and providing related financial services to enable members to improve their economic and social condition"*(Mizis, 2001).

The Credit Unions are member-owned financial cooperatives which serve their members' financial needs. The sources of fund may be members' savings, share contributions, net income, donations, external borrowings, other liabilities (Mizis, 2001).

According to Mizis (2001), Credit Unions differ substantially from other financial institutions in the following ways.

- They are locally owned community institutions controlled by their members on the basis of a one-member, one-vote system.
- Membership is based on the existence of a common bond among members.
- There exists possibilities of open and entry of members.
- Equal rights and responsibilities for each member.
- Business with members only.

- Credit unions are not-for-profit institutions which excess earnings are used to offer members more affordable loan rates and profits are re-distributed to the credit unions' members and institutional capital reserves are held jointly.
- Governance responsibilities are overseen by a board of directors serving the credit union on a voluntary basis. The board is elected from within the membership.

Even though the main activities of Credit unions are encouraging saving and providing loan services to members, currently a number of credit unions offer current account services and related services such as internet banking, ATM access or direct debit, payments, mortgages, insurance, etc.

5. Roles of Saving and Credit Co-operatives in Socio-economic Development

Co-operative is an organization which is formed by cooperation among people based on some bond to fulfill their common objectives. People have chosen the co-operative model of business enterprise to enable them to reach their personal and community development goals. These goals may be economic, social or other goals. For instance, the goals may be to create and maintain employment, to produce and supply safe and quality food and services to their members of communities in which they operate. Generally, it is known that modern co-operative started with the consumer co-operatives in England around middle of 19th century with the objective to establish co-operative shops for supply of basic consumer goods in reasonable ways. It can be said that its objectives were to overcome economic hardship of industrial revolution and strengthen social ties (Birchall, 1997). So from initial objectives of its establishment, we can say that co-operatives have both economic as well as social roles.

At the same time of mid-of 19th century organized modern financial co-operatives were established in Germany with the objectives of providing cheap and accessible credit for low income group of citizens rather than to be exploited by usurer. According to Jones (2001), Credit Union was established as a response to both social and economic needs of people which co-operative was taken by him as best means to tackle local socio-economic needs of people. In Britain, the economic hardships that were the social inequality and deprivation faced by many people during 1980s and 1990s initiated many local citizens to establish credit unions where as the development of Irish Credit Union was as a response to high unemployment, high interest rate and increasing of illegal money lenders in 1950s (Jones, 2001).

The roles of Credit Unions as economic or social both can be achieved together i.e. in pursuing social roles it is also possible to achieve economic or other roles at the same time. As a general, roles of Credit Unions were discussed as follows.

5.1 Creating cooperation and Social Capital

Initially, saving and credit co-operatives were established out of communities which have close relation and bond. *"Credit unions offer an important opportunity for people to work closely together for their own mutual benefit. There is no evidence that the profit-maximizing and investor-owned banking sector has either the interest or capability to respond to the needs of financially excluded and low-income groups within society. In certain circumstances, co-operative enterprise*

may offer the best approach to meeting the social and economic needs of particular communities”(Jones, 2001).

Even though, co-operative has the potential to foster economic growth at the community and regional level, it also builds the spirit of cooperation which was already prevalent in local areas as social capital. By developing trust and networks among members, it creates a friendship and professional colleague which is known as social capital (Jones and Rahilly, 2006). So formation of such cooperative creates cooperation among members and strengthening their social ties.

5.2 Empowerment of Local Community Economically

Mobilizing Saving and Provision of Cheap Credit

In credit provision for the poor, accessibility and cost of credit matters than anything else. Credit Union as user owned bank, it provides mutual advantages of saving and borrowing which is people need's based, it has a great role of smoothing the effect of market economy. Access to credit at non-exploitive terms has a great importance which enables the poor to avoid permanent indebtedness (CGAP, 2005). For instance, in Germany saving and credit co-operatives which was known as *Raiffiesen* Bank was providing loans and other financial services for the then rural poor in 19th century and today which is known Bank in Germany. These roles are also common in other European countries such as UK, Ireland, Netherlands, Italy, France and Spain. In Canada and United States Cooperative banks played a major role of fighting usury and enabling millions of their members to have access to consumer loans and build equity in housing and small businesses. Cooperative banks in Latin America are also provided savings and credit facilities for their poor and low middle-income members (Jazayeri, 2006).

Co-operatives create a great opportunity for local people or associated people based on some bondage to be responsible for their own financial affairs. Cooperatives as self-help institutions were originally founded out of deprivation or because of the need to optimize the economic position of the individual member by joint business activities. Financial co-operatives which are based on solidarity in line with the economic principles of self-help, individual responsibility and self-governance which resulted in a better access to financial services and maintaining their members' capability (DGRV, 2005).

As Credit Union encourages its members to save, it is essential for their economic empowerment because it mobilizes significant volumes of personal savings and channels them into small loans for productive purposes at the community level

(CGAP, 2005). So it encourages local and individual self-reliance opposed to globalization which is similar to indigenous model of development.

Supporting Income Generating Activities and Poverty Alleviation

Co-operatives are involving in financing of micro activities have a great role to alleviate poverty. Co-operative as a financial institution has a great role in mobilizing micro savings and channeling to micro lending for income generating activities. SCCs has contributed to poverty reduction by generating income and employment, enabling children to attend school, families to receive medical care and offering individuals the opportunity for taking the best possible decisions for themselves (DGRV, 2005). Saving and Credit Co-operatives provide access to financial services particularly for disadvantaged individuals and communities who are excluded from such access to establish their own enterprises, and also credit unions play an important role in the provision of financial services to small business owners. Enterprises play a key role in creating productive and decent work that helps meet the economic and social aspirations of people and their communities. Whether small, medium or large, enterprises including cooperatives, they are major sources of growth and employment in all countries. Enterprises and the entrepreneurs who run them play a crucial role in creating jobs and reducing poverty (Jones and Rahilly, 2006 and Galor, 2003).

Thus, financial cooperatives provide the means for escaping from indebtedness and for effective financial management. Their provision of insurance and services for health and social care, as well as affordable and appropriate housing, and their contribution to food security are clearly major contributions for alleviation of poverty.

5.3 Other Roles

Financing Consumption of Goods and Services

Financial co-operatives enable citizens to afford their housing, utilities and social services expenses. Credit Unions may involve in financing membership by cheap credit in purchasing and their common services while marketing cooperatives can withstand unfavorable market conditions. Financial cooperative helps households to allocate adequate funds to healthy living condition especially for his shelter, nutrition, medical care and education services (UN, 1996).

Avoiding Risk in the Period of Financial Crisis

During the great depression 1930's in the then existing Czechoslovak State, SCCs was on good position and strongly interlinked with non-financial co-operatives out of which consumer co-operatives became evident in supporting the unemployed and striking workers due to world-wide depression (Vavrova, 1992). The current financial crisis characterized by financial commitments incurred by governments and a significant decline in economic activity has underlined the importance of user-owned cooperatives banking system. Cooperative banks in the form of credit unions, building societies and cooperative banks, by focusing primarily on the needs of their members, have played a role to avoid the excessive risk-taking that harmed many large global financial institutions because credit unions apply strict prudential rules. As cooperative banks continue to operate and provide loans to their clients and enjoy the trust and confidence of their members and depositors, they can play a great role as consumers and businesses face a credit crunch.

6. Saving and Credit Co-operatives Movement in European Union

6.1 Origin and Development of Co-operatives

In Europe, the origin of modern co-operatives movement dated back to 1840s during Industrial Revolution and the first modern co-operative was established with consumer co-operative movement in the Lancashire textile town of Rochdale England by the year 1844. Before 1844 there were also co-operatives movements by Robert Owen (1771-1858) and Dr William King (1786-1865) which were not successful like that of Rochdale (Birchall, 1997).

The Industrial Revolution created hardship for workers by increasing consumers abuses by storeowners, cheating of wages paid by company and limited access to consumer goods choices. In 1843, workers in the textile mills of Rochdale England went on strike but their strike was failed. After, the millworkers devised ways to improve their lives instead of strikes. They thought their own food store as an alternative to the company store. They pooled together one pound sterling per person for a total of 28 pounds of capital founded the Rochdale Equitable Pioneers Society. These pioneers opened their own co-operatives store on December 21, 1844 to supply some consumable necessity goods (Birchall, 1997). The Rochdale Pioneers weren't the first group to try forming a co-operative but they were the first to make their co-operative successful. To avoid the past failures were made by earlier co-operatives, they developed list of operating principles governing their organization. These formed the basis for what are now known as the cooperative principles. Rochdale is still considered the birthplace of the modern cooperative movement not only for Europe but also for world wide co-operatives movement.

The cooperative movement, which was began in England in 844 was developing all over Europe and penetrating into different cultures based on Rochdale co-operative Principles. Historically, agricultural co-operatives, credit unions and saving banks were expanded in all countries of Europe while other types of cooperatives were concentrated in specific countries such as consumers' co-operatives in the United Kingdom; and housing co-operatives in Germany, the United Kingdom and Sweden. In France and Italy, countries were characterized by a slower industrialization process, workers' production co-operatives were common type of co-operatives. The development of the co-operative was highly related to the needs of peasants, workers, consumers, and craftsmen. The first co-operative experience was a defensive response by the workers class to the harsh conditions of industrial revolution which cooperatives were in their nature not only economic institutions but social institutions creating solidarity and collective cooperation (Birchall, 1997). Today, in the United Kingdom co-operatives retain a significant

market share in food retail, insurance, banking, funeral services, and the travel industry in many parts of the country. In Spain one the most successful co-operative is Mondragon Co-operative.

6.2 Financial Co-operatives

In the mid-of 19th century, credit unions movement in Germany promoted by Franz *Hermann Schulze-Delitzsch* with objective to give access to financial services for low income community by creating an opportunity to borrow from the savings pooled by themselves and their fellow members. *Friedrich Wilhelm Raiffeisen* brought the financial cooperative concept to rural Germany in 1870's. The Raiffeisen movement indicates that self-help saving and credit unions were a very effective solution to intervene in usurious markets (Jazayeri, 2006).

"In the history of the co-operative movement, the credit co-operatives in Central Europe were among the most successful and highly respected financial institutions offering services in the most remote localities with a perfect know how of local conditions and also with a considerable social impact and moral influence" (Němcová, 2005). Since the second half of the 19-th century, they were spreading. Mutual loan associations were particularly important part of the whole co-operative system. They collected savings from farmers and other less well-off classes of the population and on the other hand they extended credits on easier terms than banks and the local money lenders which are practicing usury.

Today, credit unions are functioning in a number of European countries including in Ireland, Romania, Poland, the United Kingdom, Austria, Belgium, France, Germany, Hungary, Italy, The Netherlands, Spain, Macedonia, Estonia, Latvia, Lithuania, Bulgaria, Czech Republic, Latvia, Moldova, Romania, Russia, Ukraine which some of them are members of the European Network of Credit Unions (ENCUs) as it was cited in ENCUs official website). According to WOCCU in the year 2008, 53689 Credit unions were found in 97 countries throughout the world which have some 186 million members and with total assets of \$ 1194 Billions. The data was taken from WOCCU for 12 countries in Europe indicates that there were 2569 CUs with a total members of 8.73 millions and had \$ 25 billions assets in 2008.

In Europe, the strongest credit unions were found in Ireland and also Poland, UK and Ukraine have stronger credit unions. In Ireland there were around 3.0 millions members and more than 508 credit unions had collectively more than \$19.5 billion assets in 2008. In Central and Eastern Europe, the credit union movement is growing fast especially in Poland since 1992. In Poland, 62 credit unions had been serving almost 1.9 millions members and had assets amounted to \$3.2 Billions in 2008. UK had 473 CUs with 652163 members and \$857 millions assets where as

Ukraine had 827 CUs with total members of 2.7 millions and \$764 millions total assets in the same year (as cited in WOCCU website).

6.3 EU Policy Directions for Co-operatives Development

The main policy intention of EU Council Regulation for European Co-operatives are to promote cross-border cooperation between EU members states in co-operative sectors and to create equal terms for co-operative enterprise throughout EU. The European commission gave great attention to social economic sector of which co-operative sector is a major one. There is E3 unit within the Employment Directorate-General for the co-operative enterprise and social economy enterprise sector which monitors co-operatives and social enterprise in EU member states. The EU intends to work closely with public authorities and co-operatives organizations in order to promote improvements in co-operative legislation and to harmonize national laws. The Resolution of General Assembly of UN and ILOs recommendation on promotion of co-operatives are relevant documents. The European Commission issued communication to promote co-operatives, COM(2004)18 of 23 Feb. 2004 to European governments. Regulation No.1435/2003 and the associated directive 2003/72/ES were come to effect on 18 August 2006 which all EU member states currently are adopting to their national legal frameworks (Vávrová et al., 2006, p.29-32).

According to European Network of Credit Unions (ENCU), Credit unions are regulated and supervised at the member-state level; however they are affected by European policy-making with respect to: capital requirements, deposit guarantee schemes, mortgage lending, consumer credit, microcredit, financial inclusion, financial education, volunteering and payments. The network serves as a platform to exchange information and speaks with one voice on European matters. The objectives of the network are: to create awareness of EU policymakers on roles of credit unions, to indicate EU policies as highly important to the credit union movement and to engage in an open dialogue with policymakers and other stakeholders.

7. Historical Background of Saving and Credit Co-operatives in the Czech Republic

7.1 Origin and Historical Development of Co-operatives

The historical background of co-operatives movements as a general in the Czech territory can be seen in 4 categories of chronological time order as: 1845-1938, 1938-1945, 1945-1989 and 1990 on ward depending on socioeconomic and political conditions of the time.

Co-operatives movement has a long tradition of nearly over 160 years in the present day of *Czech land*. It was dated back to 1840's. The first cooperative movement was emerged in the mid of 1840's on the territory historically known as *Bohemian or Czech Lands* which was parts of the then existing *Austro-Hungarian Monarchy*. After Co-operative was founded in the town of 'Rochdale' of England in 1844, by the initiation of Catholic priest *Samuel Jurkovič*, the co-operative of farmers Association was established in 1845 at a small town called 'Sobotiště'. The members were small farmers and craftsmen who brought their small savings to the Association's cashier as deposits and to borrow some money according to their needs. After two years in 1847, Prague Food and Saving Association were established in Prague (Vávrová, 1992, p. 8).

The emergence of co-operative movement was connected with the development of market economy in the Czech territory as it was true in other European countries. The development of market economy increased output and at the same time, it adversely affected workers and small traders in cities and towns and also peasants in rural areas. These sections of societies formed self-help organization in order to protect themselves against the economic pressure were created by market economy as well as to improve their socioeconomic conditions. The association of people in self-help organization and mutual solidarity has a co-operative character since then (Vávrová, 1992, p. 8).

At the end of 19th and early of 20th there were considerable expansion in development of C-operatives and its business. In 1918, when Czechoslovakia became an independent State, the co-operatives had a considerable economic power particularly consumer and agricultural Co-operatives. There were co-operative saving banks, Cultural co-operatives, housing co-operatives, in addition to consumer, industrial and agricultural production, processing, purchasing, and marketing co-operatives. Even though these co-operatives were strong numerically, they were fragmented and disunited due to ethnic and political problems that were affecting the whole society. The successful development of co-operatives in this country was adversely affected by Second World War i.e. the

fascist occupation in 1939 which co-operatives forcibly united and amalgamated into unions and central organizations by occupiers for their own benefits (Vávrová, 1992, p.9).

The political development that followed February 1948, the socialization process interrupted the strength of co-operatives movement. The seizure of power by Communist regime led to misuse the co-operatives development for aims of government and the Communist Party. The internationally recognized co-operative principles and values particularly those of voluntary membership and the members' participation in the co-operative were misused. The co-operatives were deprived of opportunities for entrepreneurial activities initiatives and they gradually became state-controlled Organizations (Karen, 1994). In the period 1952-1960, the whole sectors of co-operatives such as saving and credit, cultural, crafts and trade co-operatives were dissolved together with numerous agricultural co-operatives. The Co-operatives Bank and Insurance Society ceased to exist as well. Forced collectivization, the establishment of Unified Farmers Co-operatives, and the nationalization of credit, production and other type of co-operatives resulted in change of people's attitudes towards co-operatives. Meanwhile the period 1964-1969 was seemed renewal of the support for promotion of co-operative development with principle of democratic Process but after short and hopeful period of 1968 early of 1969, the efforts to restore democracy and economic independence for co-operatives resisted by the then Totalitarian Regime which followed that numerous co-operatives were forced to abandon their activities and left their organizations (Vávrová, 1992, p.15-26).

After 1989 there was a change of ideology and opened new opportunities for restoring of traditional co-operative principles. The transformation of central planned to free market economy enabled co-operatives to function as entrepreneurial entities based on the private ownership of their members which was accompanied by many ethical problems. In the course of the renaissance of co-operatives, there were misused for egoistic personal purposes. Extremely negative experiences with some credit co-operatives have brought distrust of the population. The co-operatives in the Czech Republic after 1989 are considered as an entrepreneurial subject based on the private ownership of their members. They are expected not only to accomplish a purely economic role but also to solve various social and other problems (Němcová, 2004).

7.2 Major Types of Co-operatives in the Czech Republic

A. Consumer Co-operatives

After *Rochdale Society of Equitable Pioneers* of England 1844, the significance of co-operatives was recognized by the Czech people and in 1847 the first consumer co-operative in present day of Czech territory was established as "*Prague Food and Saving Association*" (Vávrová, 1992, p.9). Its activities include commercial and savings which members deposit their savings to generate capital for purchasing of goods for daily use which were sold to its members. Afterwards Co-operatives were expanding in the now days of Czech territory. Most of consumer co-operatives were established in 1850s and 1860s which was closely associated with history of an unconventional promoter of self-help co-operatives, *František Ladislav Chleborád JUDr.* He is politician and economist who was present at the foundation of the first Business Worker Society Prague. Unfortunately, most of the co-operatives were founded under *Chleborád* idealistic influence ended with failure which resulted little growth in numbers of consumer co-operatives. In 1892 there were 61 consumer cooperatives in the Czech Land (Vávrová et al., 2006, p.5).

Between 1918 to 1938 consumer co-operatives were developed in powerful business in various parts of country namely *Pilsen, Prague, Ostrava, Kosice, Zilina* etc. They had establishments like retail shops, factories, workshops, warehouses, coffee and chicory roasting plants, packing halls, repair shops and transport centers. In Czech land (i.e. Bohemia, Moravia and Silesia), the members were mainly industrial workers while in Slovakia rural co-operatives whose member were peasants. Thus consumer co-operatives in Czechoslovakia were self-help organization with democratic principles and consistently applying traditional principles of co-operative. There was a considerable importance of consumer co-operative during *Great World Depression* (1929-1933) in supporting generously unemployed and striking workers (Vávrová, 1992 p.9-10). But these activities of consumer co-operatives were interrupted by Second World War in the period of 1938 to 1945 which were influenced by the German Occupiers.

After the post II WW, in the period 1949 to 1950 consumer co-operatives were interrupted by socialization of retail trades. The decision was made in 1950 by Communist Party of Czechoslovakia which came with new organizational structure of co-operative named "*Jednota*" means Unity was set in each administrative district by liquidating previous consumer co-operatives. According to the directive was approved on July 23rd 1952 by the Central Union of Communist Party of Czechoslovakia, co-operatives forced to hand their shops to state owned Organization. This was a great set back which they handed 15683 profitable shops in exchange they took over 5920 mostly unprofitable shops which delimited the

sector for retail trade to small villages. There was another destructive measure on Consumer co-operatives that was taken in 1952 surrender of network of wholesale and its transfer to state controlled sector based on official decision of Act No.200/1957 which came into effect in 1958 (Vávrová, 1992 p.16-17).

In between 1964 to 1969 with framework of planned management it was possible for revival of co-operatives which shops and restaurants were established. In January 1968 due to change of policy of ruling party, there was action program approval in May 23rd 1968 in support of Consumer co-operatives with involvement of members. Unfortunately, it was no longer possible where its creators were persecuted (Vávrová, 1992 p.17).

B. Building and Housing Co-operatives

Housing co-operatives has a long tradition in Czech territory. The first housing co-operatives societies came in Czech land in 1880s whose objectives were to provide low-rent homes for workers and employees. Its expansion was in difficulties of obtaining credit. The tax exemption legislation stimulated establishment of housing co-operatives. In the period 1918-1938, it was encouraging time where 8 laws were passed which enabled them to operate successfully (Vávrová, 1992 p.12). After I WW, they engaged in building houses for their members and in 1947/48 where large number of homes built in country's history. In 1949 there were 900 housing co-operatives and latter interrupted by organizational change and tended to collapse in 1954 of which the period was unfavorable time for housing co-operatives the same to others. In 1959 housing co-operatives resumed its activities and in 1960s there were substantial growth which interference and misuse by the state. It was also State priority in 1970s and 1980s where its activities were centralized. During 1970s co-operatives account 50% share in housing construction and expanded its activities in to building and flat maintenance. In 1990s housing co-operatives were responsible to manage one quarter of housing stock in the country (Vávrová, 1992 p.21-22).

C. Producer (Industrial Artisanal) Co-operatives

A major expansion of producer co-operatives took place after 1918. They were emerged in societies of weavers, hatters, glove makers, locksmiths, mechanics, fitters, tinsmiths, plumbers, cutlers, joiners and cabinet makers, basket makers, coopers, wall-painters, decorators, manufacturing of soft drinks, printing and publishing houses, book binders, furniture removers, etc. In the period of between two World Wars there were numerous producers co-operatives operated successfully under difficult condition. In the period 1945 to 1947 there were numerous increment of producers co-operatives in various business for instance

from 539 to 938 (Vávrová, 1992 p.10). But the coming of Communist Party to power restricted the movement and cooperatives were subjected to compulsory duties. Even though the producer co-operatives were dissolved in former USSR in 1959, its existence was continued by strong defense of producer co-operatives in Czechoslovakia. The 1989 revolution created basic condition for transformation of co-operatives based on market economy to conduct their business freely (Vávrová, 1992 p.18-21).

D. Agricultural Co-operatives

It was begun before the end of 1840s which showed a particular boom in 1880 and 1890s. In the early of 20s, it was possible to classify agricultural co-operatives in two namely: a) credit societies which known as '*Kampelichkas*' named after their propagator, *Dr. Cyril Kampelik* which was the '*Raiffeisen*' type of cooperatives of rural credit banks b) Non-credit societies (commercial oriented): farmers warehousing, specialized marketing, processing (milk, flour, bakery,...), Operational (electricity, machine, soil conservation, water supply, home-growers,) and agricultural production i.e. co-operative farming are worth mentioned. After the independence of Czechoslovakia 1918, the agricultural co-operatives were developed in various respects which were gradually developed fully financial, commercial and organizational system which positively influenced the rural people economic and social life of people (Vávrová, 1992, p.11).

After 1948 from these cooperatives, all processing were nationalized and food industries came under state control. And collective farming cooperatives were established which served the communist regime. But After 1989, agricultural cooperatives owned their land which regulated by commercial law (Vávrová, 1992, p.23-25).

E. Financial Co-operatives

The first Association which was co-operative type named "*Spolok Gazdovský*" means Farmer Association was established in a small town Sobotiště on 9th of February 1845 by local school-master *Samuel Jurkovič*. In essence, it was a co-operative of credit society (Vávrová, 1992). At the start of 1850s financial co-operatives were established in cities, either as saving or credit co-operatives, called "*saving Banks*". The first Saving Bank was established in 1858 in '*Vlašim*' and in other cities. By 1863 and 1871 there were 100 and 600 mutual saving banks respectively. Co-operative saving bank created powerful organization which played a significant role in national economy at that time (Vávrová et al., 2006, p.5).

František Cyrill Kampelík (1805-1872) was one of the known leading pioneer and promoter Czech Co-operative of rural self-help credit co-operatives. His famous slogan as translated from Czech language "*What is impossible for one, is easy for all together*" which reflects a true sense of Co-operative ideas (Vávrová, 1992). Czech rural credit and saving co-operatives were called *kampelichkas* "*Kampeličský*" in his memory (Vávrová et al., 2006, p.14). These co-operatives applied the principles introduced by Raiffeisen because the emergence and development of credit co-operatives in this country was strongly influenced by similar developments in the neighboring Austria and Germany. It was the influence exercised by two German pioneers of credit co-operatives *Friedrich Wilhelm Raiffeisen* and *Hermann Schulze-Delitzsch*. *Kampelichkas* helped mainly the small entrepreneurs, farmers and artisans in the country (Vávrová, 1992 p.13). Their roles were to provide credits to the poorer social classes especially in the countryside under low interest rate and to mobilize savings. *Kampelichkas* also supported building of new schools, sport centers and libraries, various cultural and education activities (Němcová, 2007). The activities of "*kampelichkas*" as credit unions existed until the year 1950. In addition there were also known intellectuals such as *Antonín Randa* (1834-1914), *František Ladislav Chleborád* (1839-1911) and *Jan Rudolf Demel* (1833-1905) who contributed for the development of saving and credit in the Czech territory (Vávrová et al., 2006, p.6-14).

During 1918 to 1938, financial Co-operatives were strongest co-operatives and serving traders and farmers while as small financial institutions in rural areas called "*Kampeličský*" and "*Raiffeisenký*". These co-operatives accepted deposits from members and gave affordable loan to members. Even though credit co-operatives movement was represent numerically the strongest sector, it was fragment sector due to the influence of the individual political parties existed in those days and ethnic minority considerations. The cooperative movement in Czechoslovakia was considered as one of the most advanced in Europe in between World Wars I and II mostly agricultural credit co-operative which was interrupted by II World War of *the German Nazi* occupation. The activities of the co-operatives were supportive to the Nazi control (Vávrová et al., 2006, p.6-14).

After 1948, *The Communist Party* started the process of transition from the capitalism to the socialism economic systems. As a result the credit co-operatives activities were stopped and in early 1950's Financial Co-operatives were replaced by State saving banks as part of the centrally planned economy system (Vávrová, 1992 p.15).

After 1989 the co-operatives were transformed to entrepreneurial entities based on the private ownership of their members. As the first legislation took others co-operatives but it did not take credit unions into account. It was only after the visit

of the World Council of Credit Unions representatives the Czech Republic and their meeting with Czech co-operative representatives and the banking committee of the Parliament in 1993 that the initiative task force was established. The first Act of Saving and Credit Co-operatives was Act No.87/1995 Coll., issued in 1995 which was valid since January 1, 1996 made the renaissance of the *kampelichkas*. Accordingly to the new law the establishment of any new credit co-operative needs a minimum of 30 founding members and a minimum capital of 100000 Czech Crowns with functions to accept savings from individual members and legal persons and to afford credits (Němcová, 2007).

F. Banking and Insurance Co-operatives

In 1920, The General Co-operative Bank was established which become central banking institution for existing co-operatives which was only co-operative Bank at time. It was as a shareholding company and conducted its operation under more advantageous condition than other banks which also had a link to other Central-European Countries. The people's Co-operative Insurance Society of Czechoslovakia was established in the same year also as a joint-stock. It took care of Property and personal insurance of the co-operatives societies and their members (Vávrová, 1992 p.15).

7.3 Co-operatives Associations

The ties of Czech Co-operatives Association to International Co-operative Alliance (ICA) dated back to 1895 when it was founded in London. In 1896 the first Association of Co-operatives namely Association of Czech Production Co-operatives was established in Kingdom of Bohemia and three years later The Central Association of Czech Production Societies was established in 1899 as there were growing demand for Central Agency for coordination. The Central Association of Czechoslovakia Consumer Industrial and Agricultural Production Co-operatives in Prague were established by Social Democratic Party in 1908. Before WW I there were 200 consumer, 30 industrial, 200 trade sector, 300 building and housing co-operatives. A total of 2000 were organized under Central Association of Production Co-operatives in 1914 (Vávrová et al., 2006).

Since then the National Co-operatives Unions continued to promote and safeguard the interest of co-operative societies. At 11th October 1990 the National Co-operative Congress was held and the activity of Central Co-operatives Council was brought to an end and its successor the Co-operative Union of the Czech and Slovak Federation Republic came to power. This Organization was established on basis of principles of voluntary membership and to promote common interest of co-operatives and their members' interest (Vávrová et al., 2006).

In 1992, Co-operatives were transformed themselves to comply with the principles of the new commercial code. Since then co-operatives have equal status with other types of commercial entities. In accordance to legislation adopted in 1993, Czech Co-operatives organized themselves on a voluntary basis into sector based co-operatives associations namely: housing, consumer, production, agriculture with an exception of credit co-operatives all are members of the Co-operative Association of the Czech Republic (CACR) (Karen, 1994). The members of CACR are Union of Czech and Moravian Consumer Co-operatives, Production Co-operatives, Housing Co-operatives and Agricultural Association of Czech Republic. The primary objectives of Union are to promote and defend interest of its members (Vávrová et al., 2006).

7.4 Legislation and Supervision of Financial Co-operatives

The monitoring and controlling roles of the state are determined by adoption of legislation and establishing a special authority for co-operatives. *Czech Lawyer Atonin Rada, JUDr* drafted a bill 'Act on Profit making and Production societies' in 1866 and approved in 1873 as a first co-operatives Law to safeguard the common interest of the co-operatives and their members. This law played substantial roles in expansion of co-operatives without amendment until 1954. The law which strengthening co-operatives were issued in 1903 is known as 'the Act Concerning Auditing of Co-operatives (Vávrová et al., 2006).

In 1995 the Saving and Credit Co-operatives Act No.87/1995 Coll., which was valid from January 1, 1996 was adopted. According to Act No.87/1995 Saving and Credit Co-operatives referred as "Credit Union" which contains a title of "saving and credit co-operatives" or "Co-operative" or "Saving Co-operatives" or "Credit Co-operatives". The Office of Supervision Saving and Credit Co-operatives(OSSCC) as a supervision authority over saving and credit co-operatives activities and management started its tasks execution only a year after the Act No. 87/1995 Coll. had come into force. In the early 1996, a Union of Czech and Moravian Credit Co-operatives was established as a voluntary interest-based organization. Its goal was to lobby and protect the interests of the savings and credit cooperatives. The Union was later renamed to Czech Credit Bank Association. On January 1, 1997, the Authority for Cooperative Credit Bank Surveillance was established. Its mission was to improve the credibility of co-operative banking in the eyes of the public and to prevent the credit co-operatives from going bankrupt. At the same time, the Foundation for Support and Growth of Credit and Saving Co-operatives was established. The task of the Foundation was to prepare a system of education, to gather contacts abroad and to draft specific materials for the cooperatives

themselves. The Foundation was dissolved at the end of 1998 as a result of a controversy with the Czech Credit Bank Association. The essence of the controversy consisted in the issues of understanding, concepts and future of the credit co-operatives in the Czech Republic (Němcová, 2007).

The current co-operative Legislation and Regulation are codification of private law both civil and commercially with concern that co-operatives should have to operate based on private commercial code as it is used in other EU countries. Since Czech Republic entered EU member, there were adoption of norms from EU in order to unify legislation at the same level.

Due to delegation of financial market supervisory mandates to the Czech National Bank(CNB), the Office for Supervision of Saving and Credit Cooperatives was suspended to operate since 31 March 2006 and its responsibilities were transferred to the CNB from 1 April 2006. According to Act No. 21/1995 Coll., issues concerning deposit insurance which arise after 31 March 2006 will be dealt by the Deposit Insurance Fund as it was cited in CNB website.

8. Potential and Possibilities of Saving and Credit Co-operatives in the Czech Republic

8.1 Credit Unions Performance Trends in the Czech Republic (1996-2008)

As it is known that saving and credit co-operatives which are traditional known in the Czech Republic as *kampelichkas* (named with their promoter *C. F. Kampelík*) are renewed after *Velvet Revolution* of 1989. They were totally liquidated during the period of 1948-1989 due to the then existing ideology. After 1989, as a result of ideological change, the government took initiatives to re-establish Credit Unions based on commercial code of conduct and the traditional co-operative principles and values to enable the functioning of co-operatives in market economic system (Němcová, 2007).

Even though there was strong demand for re-establishment of the credit co-operatives after 1989, the first legislation No.42/1991 of the Law Gazette about co-operatives transformation did not take into account credit unions. It was after the visit of the World Council of Credit Unions (WOCCU) representatives in the Czech Republic and their meeting with Czech co-operative representatives and the banking committee of the Parliament in 1993 the initiative was started. This initiative was succeeded in 1995 by adopting a law concerning credit and thrift co-operative societies Act No.87/1995 Coll., which was valid since January 1, 1996. This Act has been introduced by utilization of foreign co-operative experience, technical support of WOCCU and the American CUNA (Credit Union National Administration) association, as well as with the information received from the co-operative institutions of some other countries. The main intention was to have a system of Czech saving and credit co-operatives like the one which had been operating in this country very successfully before World War II (Němcová, 2007).

The basic legislation Act No.87/1995 for the existence and development of Czech Credit Co-operatives as well as for the establishment of new once has been provided by the Czech Commercial Code. The act urges a minimum of 30 founding members with a minimum capital of 500,000 Czech Crowns for registration of credit co-operative which has been authorized to accept savings from individual members and from legal persons and to afford credits. As it was indicated originally in act 87/1995 Credit unions are entitled to provide services: a) receipt of deposits from members; b) provision of credit to members; c) financial leasing for members; d) payment, clearing and issuance and administration of payment funds for members; e) provision of guarantee for loans and credit of members; f) opening of letters of credit for members; g) provision of collection for members; h) purchase and sale of foreign currency in cash for members and i) rental of security

boxes to members. Since act 87/1995 came in to effect, many Credit Unions were established specially between the years 1996-1999 and many of them were liquidated and bankrupted during the years 2000 to 2003.

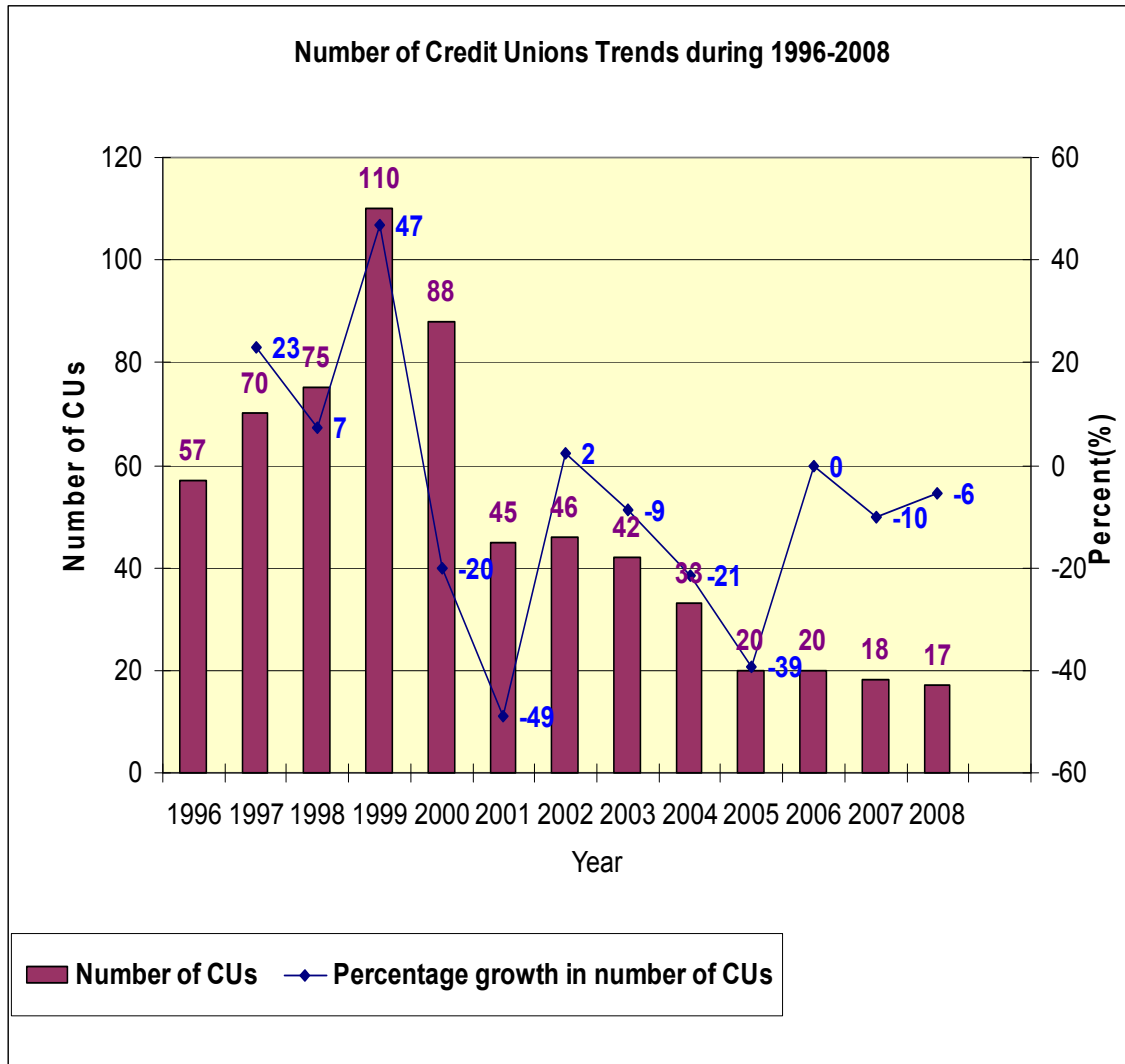
To make an overall assessment of Saving and Credit Co-operatives past performance trends and current status in the Czech Republic, some indicators of Credit Union were considered for the time period 1996 to 2008. The main indicators were utilized for the assessment reviews of trend analysis purpose are: numbers of functioning Credit Unions, number of members of Credit Unions, Members' saving deposits, and loan disbursement to members.

Growth Trends of Credit Unions

As it was shown on figure 1, the numbers of Credit Unions were increased from 57 to 110 during the years 1996 to 1999 correspondingly. The growth reached the highest level in 1999 but they were decreased sharply to 45 in 2001. This situation was continued for the period 2002 to 2008 that is to mean the numbers of Credit Unions were decreasing continuously to 17 but with a slow rate. As it was indicated on supplement table 1, there were a number of credit unions undergoing liquidation and bankruptcy during the years 1999 to 2008. On the other hand, as it was shown on the same table, the total numbers of cooperatives in the Czech Republic were increasing continuously especially as results of an increment in housing and agricultural cooperatives during the period 1996 to 2008.

The percentage growth trends for the number of Credit Unions were indicated also on figure 1 below for the years under review (1996-2008). During the first three consecutive years a positive and promising growth trends were observed while for the remaining years (200 to 2008) negative growth trends were seen. There were 17 Credit Unions in the Czech Republic out of which 10 of them were located in Prague while the others were located in few towns out of Prague at the end of September 2009. From these CUs 16 of them were established before 2000 and only one was established in 2006(for detail information see supplement table 3).

Figure 1



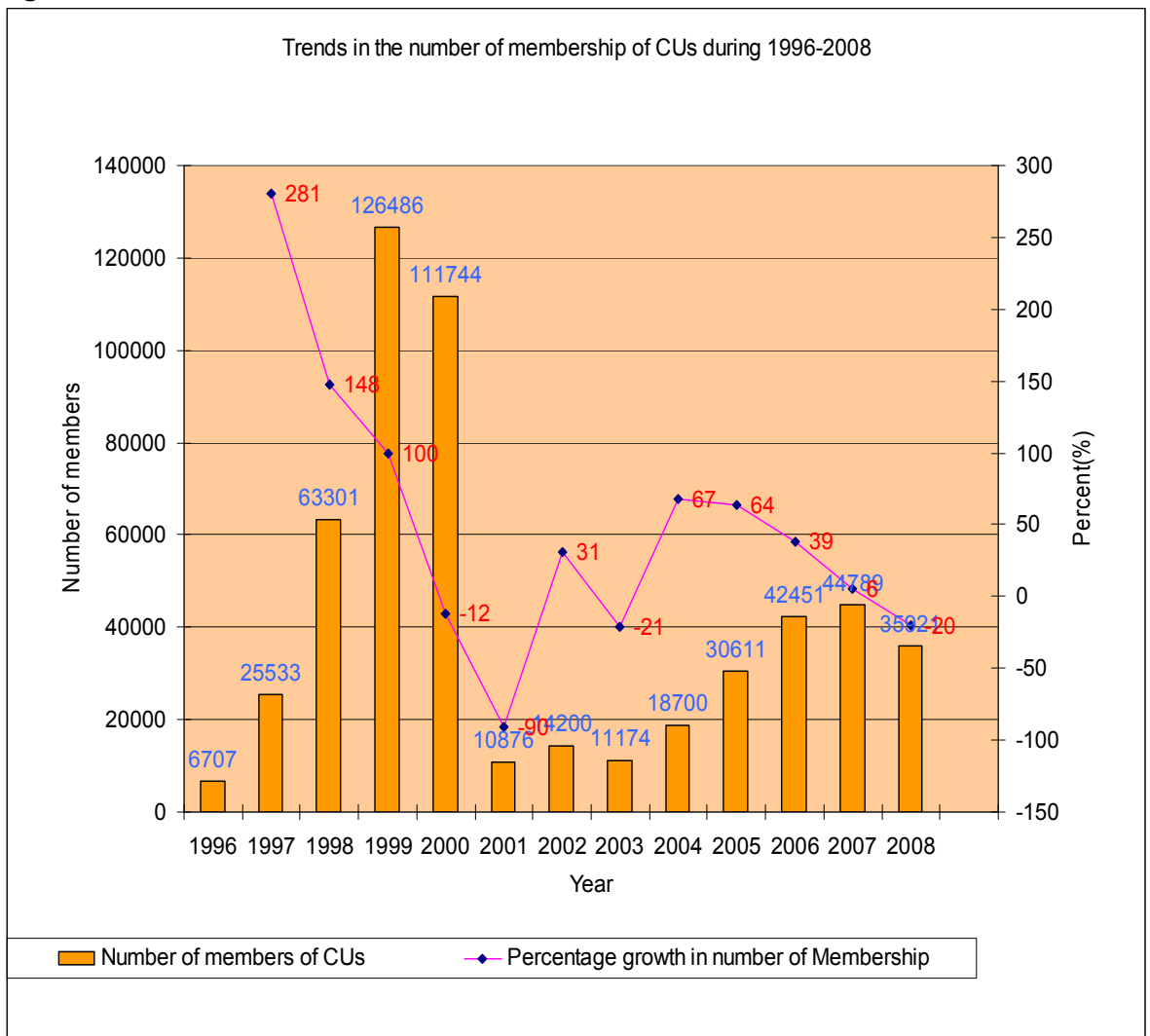
Sources: Compiled from Czech National Bank and Co-operative Association of the Czech Republic for the years 1996-2009

Growth trends in the membership of Credit Unions

Membership performance trends were the same as the number of Credit Unions during 1996-2001 but they follow opposite directions from 2002 on wards. As it was indicated on figure 2 below, there was an increment in the membership of CUs from 6707 to 126486 during the years 1996 to 1999 correspondingly. The numbers of membership were grown by 281%, 148% and 100% for 1997, 1998 and 1999 respective years as it was indicated in figure 2. Unfortunately, a year after starting from 2000 the reverse condition was happened of which for the next two years there were a sharp decline from 126486 in 1999 to 10876 in the year

2001. But after the year 2002, positive growth rates were observed for those consecutive years even if the numbers of Credit Unions were continuously declining as it was shown on figure 1 above. This indicates that there are possibilities of expanding and strengthening of existing Credit Unions even with admitting more members to already existing co-operatives without establishing new ones.

Figure 2



Sources: Compiled from Czech National Bank and Co-operative Association of the Czech Republic for the years 1996-2009

Saving and Loan Performance Trends

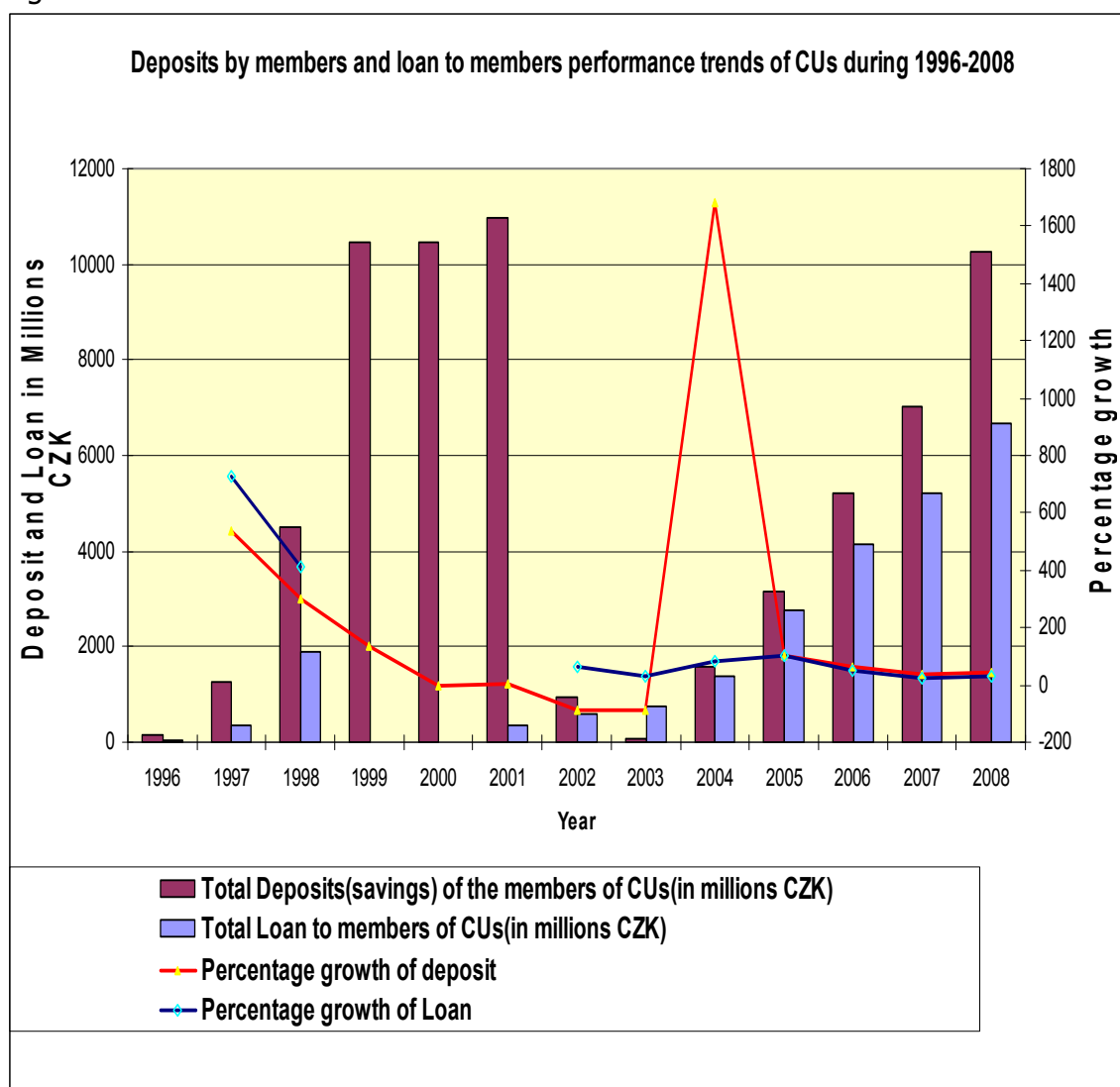
The main activities in saving and credit co-operative are collection of members deposit and disbursement of loan to its members. As it was indicated on figure 3 below, trends in members' amount of saving deposit was increased for five consecutive years from 1996 to 2001 but it was decreased tremendously to the lowest level in 2003. Starting from 2004, the amount of saving deposit by members' was increased from 3146 to 10282 millions CZK to the end of 2008 which is one of promising performance for the functioning of financial co-operatives. On the other hand, the amount of loan disbursed to their members which is the main source of earning for Co-operatives existence have been with a little promising for first three year 1996 to 1998 while for the next two consecutive years(1999 and 2000), it was unknown due to unavailability of data.

Starting from the year 2001, the amounts of loan disbursement was increasing sustainably without any gap till the year 2008. The percentage growth rates for both saving and loan were falling till 2003 but a year after deposit was grown by the highest percentage 1683% in 2004 with surprising growth percentage and this growth rate was fallen to 100% a year after in 2005. In general, saving and loan have been growing with positive rates since 2005 but with decreasing rates. The reasons for high growth in saving deposits in 2004 may be an introduction of banking prudential rules and standards, application of internal control systems and risk management systems, amendments of act no. 87/1995 by another acts and enforcement of those acts.

There is an argument which says the accession of the Czech Republic to EU membership in 2004 contributed for an increment of saving deposits of Credit Unions Sector. *"New possibilities for the further development of the Czech credit co-operatives hopefully have been just open by the recent entry of the Czech Republic with the European Union on May 1, 2004. More intensive contacts of the Czech co-operative movement can be expected with those European countries where the development of co-operative movement has been never interrupted nor violated by any totalitarian régime. Nevertheless EU legislation demanding higher basic capital for any credit co-operative will need some restructuring of several still existing small Czech credit co-operatives which have proved their fidelity to the original solidarity ideas and co-operative principles and have been able to overcome any crisis of the renewed system of kámpelichkas. Unfortunately to my deep regret these EU demands – not taking into consideration historical roots and development –can lead to liquidation of the small credit co-ops or to their fusion with the big ones. Therefore the future of the Czech credit co-operatives and their role in the financial market are not clear"*(Němcová, 2007, p.310).

The Czech National Bank Report for Banking Supervision 2004 also supports this argument. As Czech Republic entered in to EU, the implementation of BASEL Capital Accord specifically to increase the safety and soundness of financial systems and also to enhance competitive equality among Banks and Credit Institution were the main concern. The main issues were considered in BASEL capital accord are capital requirements, capital adequacy and supervision in order to avoid operational and credit risk of financial institutions (CNB, 2004, p.13-14).

Figure 3



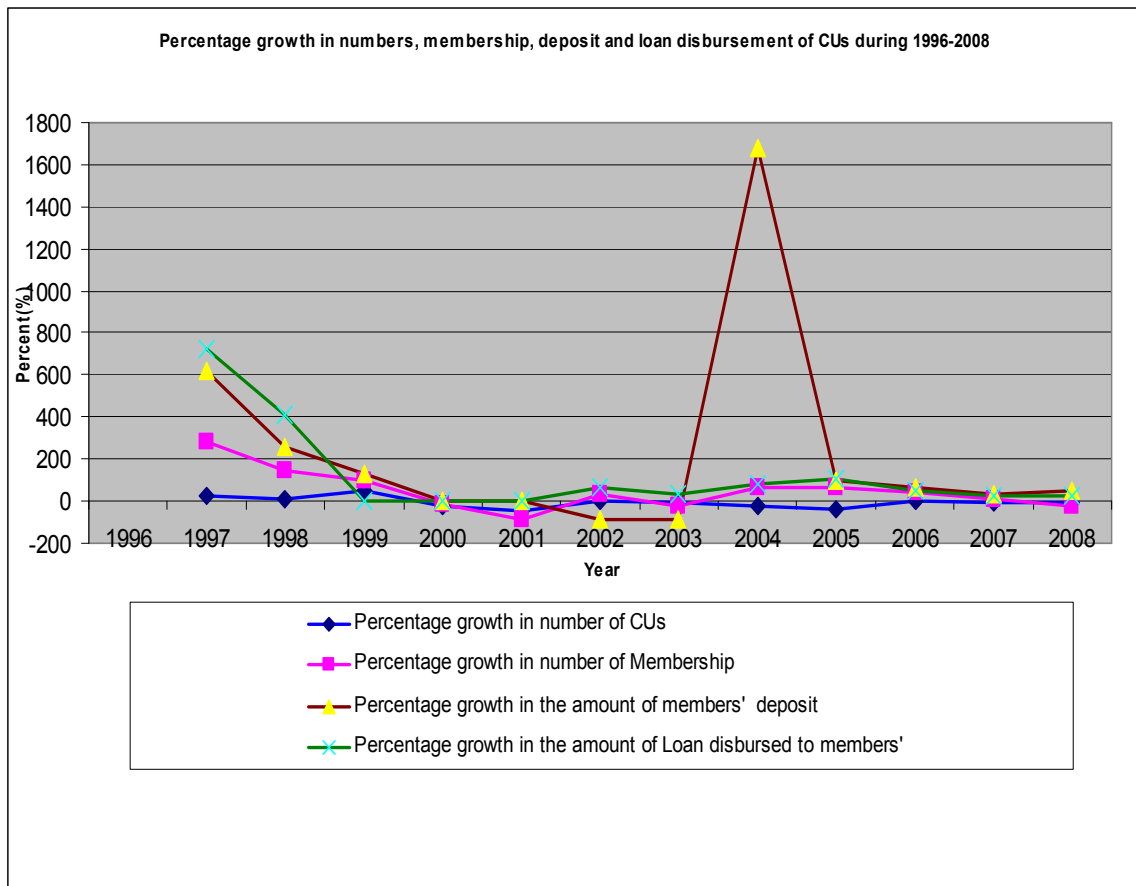
Sources: Compiled from Czech National Bank and Co-operative Association of the Czech Republic for the years 1996-2008

Comparison of Growth Indicators of Credit Unions

The percentage growth rates for the number of CUs, membership, saving deposits and loan to members of CUs were indicated below on figure 4. The number of Credit unions was grown relatively by the lowest percentage rate and also it was grown negatively for most of the years when compared with the other indicators.

Membership growth rate was decreasing up to 2001 but since 2002 it was increasing by slower rates than deposit and loan disbursement growth rates. Deposit of members was decreasing continuously up to the end of 2003 but in 2004 a high growth rate was registered. And after a year in 2005 a sharp fall was recorded and since then deposit growth rate was falling smoothly. In general as it was indicated on the above figure, loan disbursement during the first 3 years had greater growth rate but after 2003 onward positive and greater percentage growth rates were observed for deposit.

Figure 4



Sources: Compiled from Czech National Bank and Co-operative Association of the Czech Republic for the years 1996-2008

Even though the performance of credit unions was promising during 1996 to 1999, since 2000 many credit unions were bankrupted and liquidated. The damage was occurred to Credit Unions growth after 1999 mainly by ethical problem (misused of cooperatives for personal profits and aims) which was the same problem before in the public enterprises and cooperatives transformation process (privatization). Even if social and ethical values are the main concerns of co-operatives, these values were disregarded by egoistic people in renewed Credit Cooperatives of the Czech Republic (Němcová, 2007). This egoistic personal activity was resulted in negative experiences of which some financial co-operatives have been subjected to suspicions and distrust of their members and population even if an immediate engagement of the respective state organs such as police and judiciary had considered financial losses.

The actual problems as they were identified by Němcová (2005) specifically for Credit Unions failure are: deficiency in the law related to supervision and control, corruption, lack of a permanent control from both members and the state, under estimation of co-operative principles, lack of mutual solidarity of members, unqualified management and lack of public trust. After these problems were recognized, the government tried to enforce laws and cooperative principles, strengthening Supervising State Organs to avert those unethical conducts. For instance application of ethical banking principles to credit cooperatives and delegation of supervision activities to Czech National Bank are worse mentioned. Amendments to the original act no. 87/1995 and enforcing of them have been done. For instance the following acts: act no. 100/2000 Coll., act no. 406/2001 Coll., act no. 212/2002 Coll., act no. 280/2004 Coll., act no. 377/2005 Coll., act no. 413/2005 Coll., act no. 70/2006 Coll., act no. 120/2007 Coll., act no. 254/2008, etc were amendments on the original act 87/1995 by the government regarding Financial Cooperatives.

8.2 Relative Comparison of Credit Unions: the case of Poland and the Czech Republic

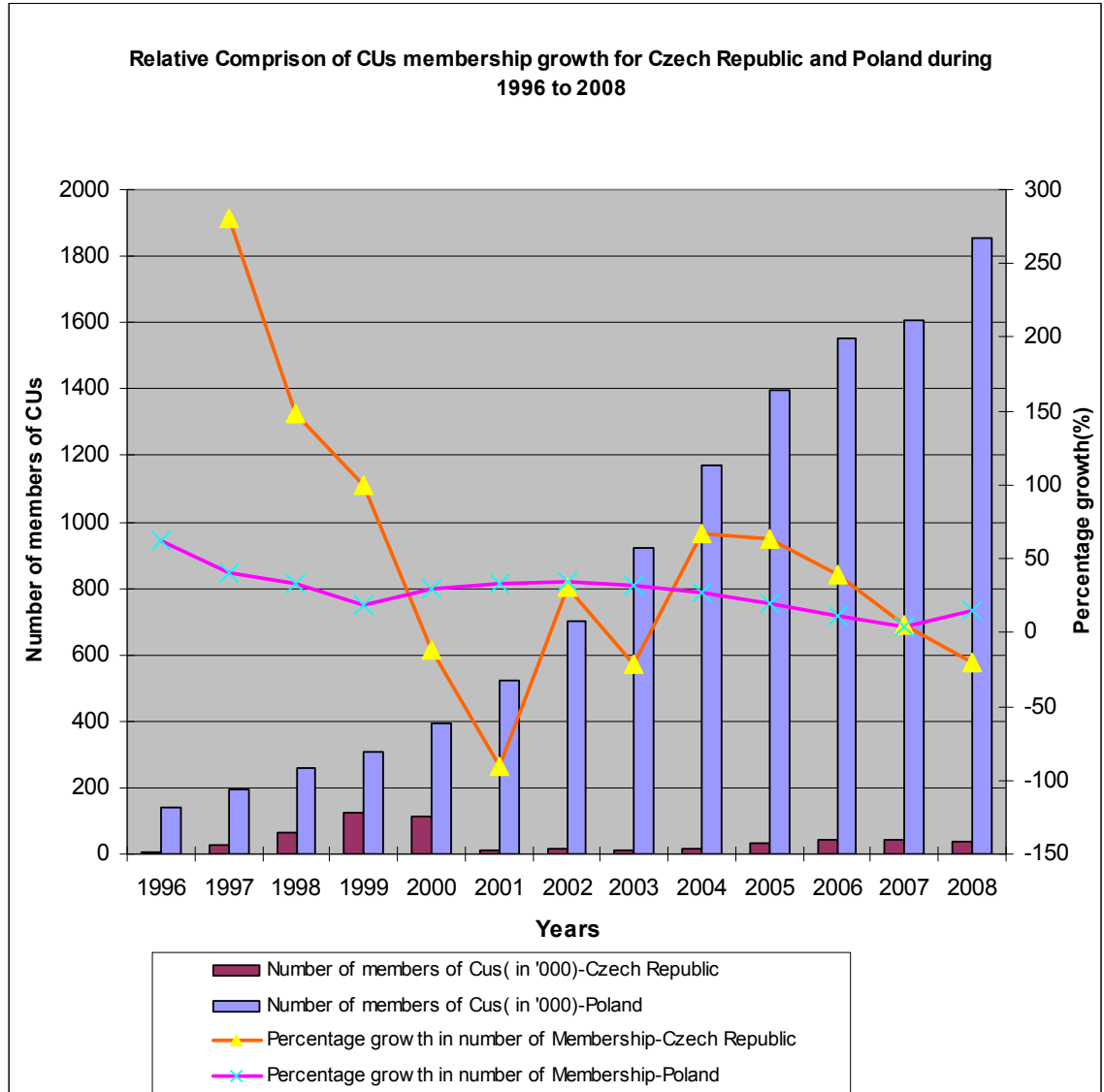
As Poland is one of neighboring country of Czech Republic and better performing country in the Credit Unions sector, it is essential to make relative performance assessment review to draw some relevant experiences for Credit Unions growth in the Czech Republic. Under this sub-topic the following 3 questions were addressed shortly.

- i. How was the performance trend of Credit Unions sector in Poland relative to Czech Republic during 1996-2008?
- ii. What were the main factors contributing for sustainable growth of Credit Unions in Poland?
- iii. What can we learn from Poland successful Credit Unions movement?

After the collapse of Communist System, Poland has been established a sustainable and successful Credit Unions starting from 1992 by the technical assistance of WOCCU which was funded by U.S. Agency for International Development(USAID). Before the year 1992, there were no operating credit unions in Poland; it was since then aggressively a large numbers of successful CUs were built throughout Poland. USAID assistance to Credit Unions in Poland was enabled to establish new credit unions and generate new assets which helped to promote education about credit unions and established a legal framework for their development in post-communist Poland. However, USAIDA phased out in September 2000. Credit unions sector in Poland is a huge provider of retail financial services to low-income Poles (Evans and Richardson, 1999).

Providing act 1991 that allowed credit unions to establish themselves in workplaces such as coal mines, shipyards and factories, and with the aid of USAID sponsored project started in September 1992 many Credit Unions were established. As it was indicated below on figure 5, the numbers of Credit Unions had the same trends under those years in Poland and Czech Republic which the number of CUs had been increasing till the year 1999. But since the year 2000 the number of CUs was decreasing with erratic growth trends for both countries. Even though the numbers of CUs establishment were decreasing for Poland, there were continuous and sustainable growths in membership, saving deposits of members, loan disbursement and total assets of Credit Unions as it was indicated on supplement tables 4 and 5.

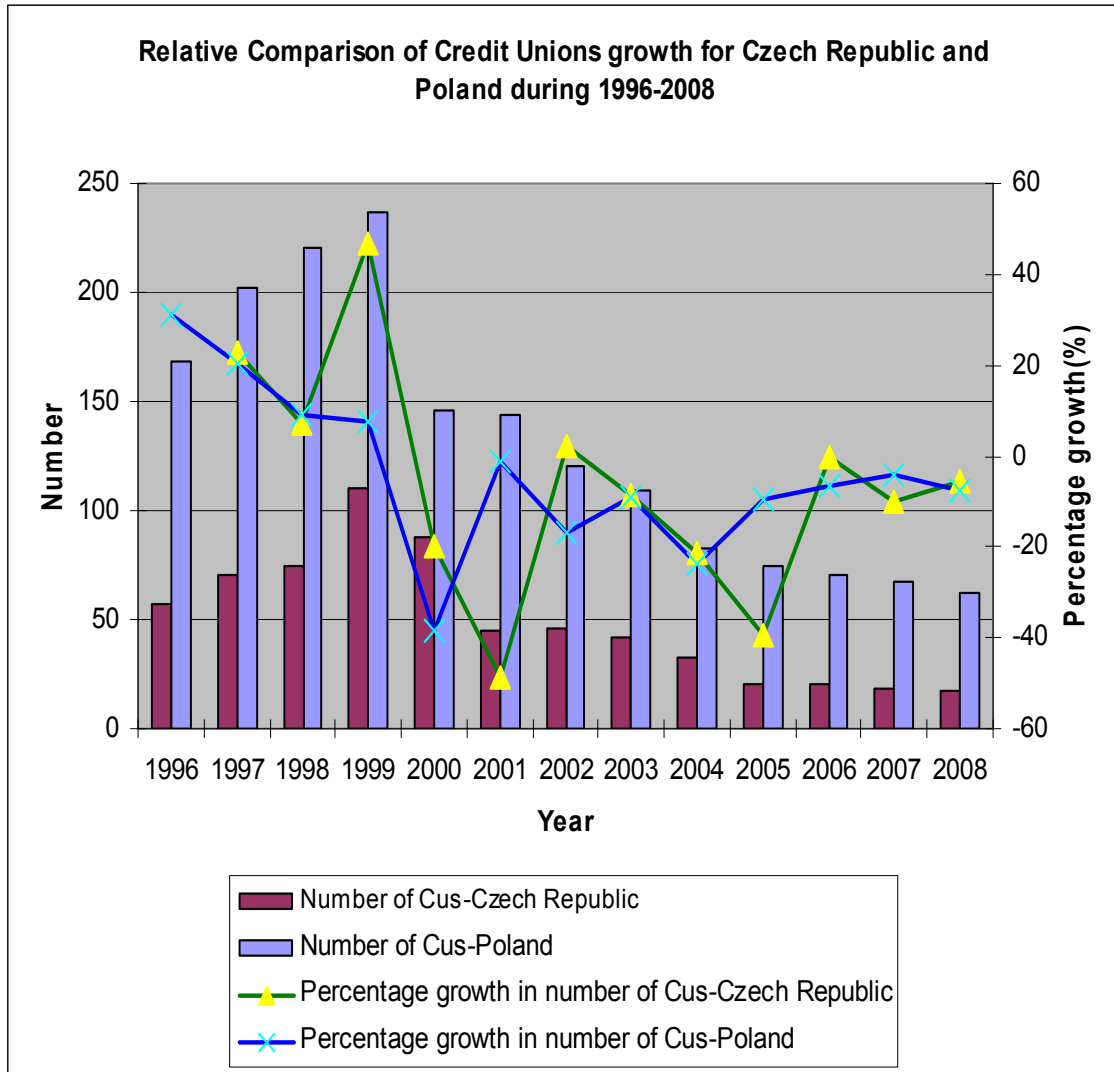
Figure 5



Source: National Bank of Czech Republic, <http://www.woccu.org/publications/statreport> and <http://www.ocdc.coop/Sector/Insurance/tuwskokpoland.pdf> accessed on 30-01-2010

From figure 6, we can understand that a continuous growth in the membership of Credit Unions for Poland whereas for the Czech Republic until the year 1999 a promising trend was observed. However, in the Czech Republic starting from 2000, there was a falling trend in the number of members till 2004. Thus, starting from year 2005 it was increasing because of better legislation and supervision for the Czech Republic.

Figure 6



Source: National Bank of Czech Republic, <http://www.woccu.org/publications/statreport> and <http://www.ocdc.coop/Sector/Insurance/tuwskokpoland.pdf> accessed on 30-01-2010

Credit unions in Poland are providing variety of products and services ranging from short-term instant loans, medium term credits, long-term housing loans, share deposits, withdraw able voluntary savings deposits, systematic savings programs, fixed term deposits, automated teller machines (ATM), electronic payment of monthly bills, credit cards, to life insurance. Credit union interest rates are more attractive than those of commercial and state banks. Credit unions typically pay several percentage points higher on savings deposits and are charging one or two points less on credit (Evans and Richardson 1999).

In Poland, Credit Unions are two-level organizations structure the higher level is constituted by the National Credit Union and the lower level is constituted by credit unions. The National Association of Co-operative Savings and Credit Unions (NACSCU) is the head organization as Central Finance Facility through which all credit unions are allowed to do their business in Poland. NACSCU was established to enforce act 1995 with the responsibility of establishing prudential standards and norms for credit unions and then enforcing those norms through a comprehensive audit and supervisory role. In the case of credit unions face financial shortage, they can borrow from the Central Finance Facility of NACSCU at a low interest rate. There was also the Stabilization Fund to assist credit unions that have experienced financial difficulties in the volatile economic conditions of the financial marketplace. Credit unions must deposit 1.22% of their total assets at NACSCU as Stabilization Fund, at 0% interest, to help weak credit unions strengthen their financial position and protect their member savings deposits of which NACSCU lends this money out to weak credit unions at preferential rates (Evans and Richardson, 1999).

According to Richardson and Evans, factors contributed for a successful growth of the Polish Credit Unions Movement are:

- ❖ Successful national macro-economic reforms and favorable fiscal economic policy,
- ❖ Political support from the Solidarity Trade Union and Solidarity political party i.e. commitments and unwavering political support,
- ❖ Strong credit union leaders and competent employees,
- ❖ Technical assistance by WOCCU and USAID during 1992-2000 to promote Credit Unions development in Poland,
- ❖ Favorable Credit Union legislation i.e. acts allow CUs tax exemption, ATM and Credit Cards, Interest-Bearing Liquidity Reserves, Exemption from Minimum Capital Requirements, Current Account in the National Bank of Poland (NBP), Business Loans to Credit Union Members. And also credit unions pay more attractive financial services than the bank most credit unions pay 3-4% more on savings deposits and charge 1-2% less on loans.
- ❖ CUs were started in the workplace,
- ❖ Accession and adopting EU regulations for Credit Unions (Siudek, 2010)
- ❖ Polish economic and social underpinnings demonstrated by strong cultural and religious basis towards people helping people. For Poland 90% of the population are Catholic and approximately 70% go to church of which it contributed for maintain principles of co-operatives (Richardson and Evans, 1999 and Bierecki).

From Poland Credit Unions successful experience, we can deduce some of key points as follows.

- ❖ Service diversification. Diversification will expand earning possibility which ensure sustainability of Credit Union by subsidizing interest payment on loan and also we can understand that from the services Polish Credit Unions and people need a diversified range of financial services matching their different needs.
- ❖ Strong religious affiliation is significant factor for people to trust each other, helping each other, responsible for others, creating strong bondage for sustainability of Credit Unions.
- ❖ Commitment and qualification of leaders is very essential for success of Credit Cooperatives. One can remind that *Dr. F.C. Kampelik* who did a lot in development of rural credit and saving cooperative in the Czech Republic.
- ❖ Developing trust and solidarity by the members of co-operatives. Credit unions are financial institutions relying mostly on their members for sustainable growth. A respectful and moral value is a typical property of ethical behavior of integrity, fairness, fair play, participation on common prosperity, truthfulness, honesty, credibility, orderliness which will lead to have well committed members.
- ❖ Establish institution and appropriate legislations for credit unions supervision and control. The roles of government in development of credit unions are to create conducive environment for them but Credit unions should be able to decide what and how to do their business and
- ❖ Organizing of Credit Unions at Work Place.

8.3 Financial Analysis of Credit Unions Sector during 2004-2008

The significances of financial analysis are to identify existing strength and weakness and to indicate future potentialities for growth of Credit Unions. From view points of development policy, measurement of the performance of financial institutions is a difficult task as it involves only financial criterion of economic viability of which development policy concerns both financial and social viability (Krahenen and Schmidt, 1995). The measurement and analysis of both criterions involve extensive and complex methodologies.

Economic viability of Saving and Credit Cooperatives depends mainly on the financial soundness that is the ability to cover all costs on a sustained basis out of income from the provision of savings and credit facilities. However, performance measurement is all the more difficult for Credit Unions by taking a given period earnings and expenditures from the accounts. This difficulty arises from the practice that extending credit at low rates of interest is a very widespread policy of credit cooperatives and members enjoy cheap loan is an indirect form of benefits to members which is not indicated on financial accounts. So for the purpose of this analysis, some indicators of economic viabilities of Credit Unions were taken which

indicate financial soundness. Conducting past performance analysis across historical time periods for the same firm and making a comparison between Credit Unions are ways of conducting financial analysis even though financial ratios analyses face several theoretical challenges (Krahnert and Schmidt, 1995).

8.3.1 Objectives of the Analysis

The main objective of this sub-part is to make financial analysis using financial ratios over time by making benchmark comparison with WOCCU ratios standards. The standards ratios are benchmarking ratios were established by WOCCU to make comparison of Credit Unions of countries financial performance to the established goals of excellence. WOCCU has established international Prudential Standards for Credit Union Operation in 1990. The analysis of CUs by using financial ratios lies with the objectives that CUs should achieve their commercial objectives.

Financial analysis refers to an assessment of the profitability, growth; liquidity and solvency of a business by using financial ratios were computed from income statements and balance sheets. As the concern is to use WOCCU ratios standards for performance analysis, first we should have to conceptualize the contents of ratios and their methodologies.

8.3.2 Conceptualizing Financial Ratio Tools of Analysis and Methodologies

Since 1990, WOCCU has been utilizing as a "rules of thumb" *PEARLS ratios* which measures 6 key areas of CUs financial performance functions namely: Protection, Effective financial structures, Asset quality, Rates of return and cost, Liquidity and Sign of growth (PEARLS) (Richardson, 2002 and WOCCU). According to conceptual guidelines of WOCCU, the importance's of **PEARLS** as a set of financial ratio indicators are: to monitor the performance of Credit Unions function, to identify problem areas with CUs, to make comparisons among peer institutions in one country or across countries and to enable managers of CUs to take necessary adjustment measures. *"For each PEARLS indicator, target ratios are identified by which a credit union can measure institutional strength, economic viability and growth. Interconnected ratio analysis enables managers to see how and why the credit union is performing at its current rate and to take action to correct deficiencies or to stimulate organizational change and development. Essentially, it promotes decision making based on the observation and measurement of key performance indicators"*(Jones and Decker, 2007, p.35).

Components and Methodologies of PEARLS

PEARLS has 6 major parts and a total of 44 quantitative financial indicators that facilitate an integral analysis of the financial condition of any financial institution of which each indicator has a prudential norm or associated goal (Richardson, 2002 and WOCCU). Depending on objectives of study and relevant data availability, selected ratios were utilized for this analysis. Thus for this purpose 18 ratio indicators were utilized. Depending on the theoretical concepts were formulated by WOCCU, the major parts and some selected indicators with their methodologies were explained as follows before use.

Protection(P): Under this heading indicators show that how the financial institutions provide depositors a safe place for their money. Allowances for loan losses are defense against unexpected losses to the institution. As delinquency signals that loans are at risk; credit unions must set aside earnings to cover those possible losses for protection of member-client savings (Richardson, 2002 and WOCCU). Under this part, two selected indicators P1 and P6 were taken to analyze financial protection by Credit Unions sector.

P₁(Loan Losses allowances/Delinquency): This ratio measures the adequacy of the allowances for loan losses when compared to the allowances required for covering all loans delinquent over 12 months. The data are required to compute this ratio would be:

- a. Allowance for Loan Losses from balance sheet
- b. Percentage of allowances required for covering loans that are more than 12months delinquent. WOCCU suggests use 100%, but a different percentage may be used in countries where local laws or regulations are different.
- c. Loan Balances of all loans delinquent more than 12 months

Formula for calculation; $P_1 = a / (b * c) * 100\%$

P₆(Solvency)=Net Value of assets/Total Shares and Deposits: P6 measures the degree of protection that the credit union has for members' savings and shares in the event of liquidation of the credit union's assets and liabilities.

Data are required on:

- a. Total Assets
- b. Allowances for Risk Assets
- c. Balance of Loans Delinquent greater than 12 months.
- d. Balance of Loans Delinquent from 1 to 12 months.
- e. Total Liabilities
- f. Problem Assets (Losses that will be liquidated)
- g. Total Savings
- h. Total Shares

Formula for calculation; $P_6 = [(a+b)-(c+.35(d)+e+ f)] / (g+h) * 100\%$

Effective financial structures(E): The financial structure is the most important variable that affects growth potential, profitability or earnings capacity, efficiency and overall financial strength of Credit Unions(Richardson, October 2002). This part focuses on CUs sources of funds (savings, shares, external credit and institutional capital) and its uses of funds (loans, liquid investments, financial investments and non-earning assets) (Richardson, 2002 and WOCCU). Under this part three indicators were taken namely E1, E5 and E7.

E₁(Net Loan/Total Asset): This ratio recommends that credit unions that maintain most (70-80%) of their total assets in the loan portfolio have a greater opportunity to maximize returns on these productive assets while providing their member-clients with the credit services as they want. Data are required on:

- a. Total Gross Loan Portfolio Outstanding
- b. Total Allowance for loan losses
- c. Total Assets

$$\text{Formula for } E_1 = (a-b)/c * 100\%$$

E₅(Saving Deposit/Total Asset): It measures the percentage of total assets financed by savings deposits and goal should be in between 70-80%.

- a. Total Savings Deposits
- b. Total Assets

$$\text{Formula is } E_5 = a/b * 100\%$$

E₇(Member Shares / Total Assets): It is percentage of total assets financed by members' shares which can be calculated as:

$$E_7 = \text{Total Member Shares} / \text{Total Assets} * 100\%.$$

Asset Quality(A): It is the main part which indicates profitability. An excess of defaulted or delayed repayment of loans and high percentages of other non-earning assets have negative effects on credit unions' earnings which are mostly measured by loan delinquency and non-earning assets to total assets ratios (Richardson, 2002 and WOCCU). Under this indicator, two ratios namely A1 and A2 were taken.

A₁(Total Loan Delinquency/Gross Loan Portfolio): It involves measure of the total percentage of delinquency in the loan portfolio. A1 is computed based on:

- a. Sum of all delinquent loans balances (a non-bookkeeping control) and
- b. Total (Gross) Loan Portfolio Outstanding

$$A_1 = a/b * 100\% \leq 5\%$$

A₂(Non-earning assets/Total assets): It is a percentage of the total assets not earning income which is computed based on the following data.

- a. Total Non-earning Assets
- b. Total Assets

$$A_2 = a/b * 100\% \leq 5\%$$

Rate of return and cost(R): The return earned on each type of asset (investment yields) and the costs of each type of liability (source of funds) are very essential components for financial performance evaluation. The types of assets those we have for returns and the liability we own as sources of funds affect the growth rates of Credit Unions (Richardson, 2002 and WOCCU). R5, R8, R9 and R12 were utilized under this part.

R5(Financial Cost: Saving Deposits/Average Saving Deposits): It measures the yield (cost) of Savings Deposits and it's a rates which protect the nominal value of the savings deposits (>Inflation). The data are required for the calculations of this rate are:

- a. Total Interest Paid on Savings Deposits
- b. Total insurance premium paid on Savings Deposits
- c. Total Taxes paid by Credit Union on Savings Deposit Interest
- d. Total Savings Deposits as of Current year-end.
- e. Total Savings Deposits as of Last year-end

$$\text{Formula for R5} = \frac{(A+b+c)}{((d+e)/2)} * 100\%$$

R8(Gross Margin/Average Asset): It is the gross income margin expressed as a yield on all assets before subtracting operating expenses, provisions for loan losses and other extraordinary items. The data for calculation are:

- a. Loan Interest Income
- b. Liquid Investment Income
- c. Financial Investment Income
- d. Non-Financial Investment Income
- e. Other Income
- f. Interest Cost of Savings Deposits
- g. Dividend or Interest Cost of Member Shares
- h. Interest Cost of Borrowed Funds
- I. Total Assets as of Current Year-end
- j. Total Assets as of Last Year-end

$$R_8 = \frac{((a+b+c+d+e)-(f+g+h))}{((i+j)/2)} * 100\%$$

R9(Operating Expenses/Average Total Assets): It indicates the degree of operational efficiency or inefficiency and it is a cost associated with the management of all Credit Union assets. From the data given below, a formula for **R9=a/((b+c)/2)*100%**

- a. Total Operating Expenses (exclusive of Provisions for loan losses)
- b. Total Assets as of Current year-end
- c. Total Assets as of Last year-end

R12(Net Income/Average Asset): It measures the adequacy of earnings and capacity to build institutional capital. **R12=a/((b+c)/2)*100%**

- a. Net Income (After dividends)
- b. Total assets as of Current year-end
- c. Total assets as of Last year-end

Liquidity(L): The maintenance of adequate liquidity reserves is essential for sound financial management in credit unions. Liquidity is the cash needed for withdrawals whenever it is needed by members/depositors (Richardson, 2002 and WOCCU). Three ratio indicators were considered under this part.

L₁(Liquid Assets-Short term Payables/Total Deposits): It is an adequacy of the liquid cash reserves to satisfy depositors withdrawal requests after paying all immediate obligations for less than 30 days. Formula for $L_1=(a+b-c)/d*100\%$ based on the data were given below.

- a. Total Earning Liquid Investments
- b. Total Non-earning Liquid Assets
- c. Total Short-term Payables <30 days
- d. Total Savings Deposits

L₂(Liquidity Reserves / Total Savings Deposits): It measures compliance with obligatory Central Bank, or Other Liquidity Reserve Deposit requirements.

- a. Total Liquidity Reserves (Earning Asset)
- b. Total Liquidity Reserves (Non-earning Asset)
- c. Total Savings Deposits

From the data were given above formula for $L_2=(a+b)/c*100\%$

L₃(Non-earning Liquid Assets/Total Assets): It is a percentage of total assets that is invested in non-earning liquid accounts. Its formula is simply as $L_3=a/b*100\%$ from the data were given below.

- a. Total Liquid Non-Earning Assets
- b. Total Assets

Sign of Growth(S): Maintaining asset values of Credit Unions through strong and accelerated growth of assets is accompanied by sustained profitability. However, growth by itself alone is not sufficient. The signs of growth reflect member-clients satisfaction and financial strength of CUs. Growth directly affects an institution's financial structure and requires close monitoring to maintain balance in growth of savings deposits, total assets, loans, share and institutional capital (Richardson, 2002 and WOCCU). Four ratios were taken to analyze sign of growth.

S₁(Growth in Loan to members): It is a measure of yearly growth of the Loan Portfolio. The Data are required on:

- a. Current Loan Portfolio balance
- b. Loan Portfolio balance as of Last year-end

Formula for $S_1=(a/b)-1*100\%$

S₅(Growth in Saving Deposits): It measures the growth of Savings Deposits. The data for computation are;

- a. Total Current Savings Deposits and
- b. Total Savings Deposits as of the Last year-end.

Based on above data, formula for $S_5=(a/b)-1*100\%$

S₁₀(Membership growth): It measures the yearly growth of membership of the Credit Unions sector. It is computed from the data;

- a. Current Number of Members (non-bookkeeping control) and
- b. Number of Members as of Last year-end (non-bookkeeping control)

$$\text{Formula for } S_{10} = (a/b) - 1 * 100\%$$

S₁₁(Total Assets): It measures growth of total assets based on the following data.

- a. Total current assets
- b. Total assets as of the Last year-end

$$\text{Formula for } S_{11} = (a/b) - 1 * 100\%$$

8.3.3 Discussion of Results

This sub-topic involves interpretation of calculated PEARLS financial ratio results and identification of their policy implications. As it is indicated on table 1, 18 PEARLS financial ratios indicators were calculated by using above mentioned formulas for each selective indicator depending on the availability of data and relevance of ratios for the purpose of the study. The calculated results were only for four years(2004, 2005, 2007 and 2008) because the relevant data from income statement and balance sheets of Credit Unions sector of the Czech Republic were only available for those years.

Protection

From the calculated results were displayed on table 1, the financial protection were given against loan losses is adequately more than enough of which P1(Allowance for Loan Losses /Allowances required for Loans Delinquent > 12 Months) by far greater than 100% to cover all delinquent loans. For P6(Solvency), the calculated ratios nearly double of the minimum requirement(111%) for all the years under considerations. So from these results, we can say that Credit Unions sector in the Czech Republic provided adequate protection allowances for delinquent loans or else CUs provided safe protection of money for depositors during the stated years. The policy implication of this result is that it will increase people's trust in Credit Unions to deposit their money.

Effective Financial Structure

Under Effective Financial Structure, three ratio indicators were considered. From calculated results were indicated on table 1, except E1(Net Loans/Total Assets) the others two indicators E5(Savings Deposits/Total Assets) and E7(Savings Deposits/Total Assets) met the standard goal of excellence were established by WOCCU.

Table -1- PEARLS Financial Ratios for CUs Comparative Analysis of Czech Republic with WOCCU international Standards

No	PEARLS RATIOS	WOCCU INTL. Goal	Czech Republic			
			2004	2005	2007	2008
1	Protection					
	P1=Allowance for Loan Losses /Allowances required for Loans Delinquent > 12 Months	100%	167	357	180	118
	P6=Solvency(Net Value of assets/Total Shares and Deposits)	≥ 111%	205	212	213	207
2	Effective Financial Structure					
	E1=Net Loans/Total Assets	Between 70-80%	64.6	66.6	57.9	55.0
	E5=Savings Deposits/Total Assets	Between 70-80%	74.6	76.4	78.6	85.3
	E7=Member Share Capital / Total Assets	Between 10-20%	23.0	18.0	14.0	10.0
3	Asset Quality					
	A1=Total DelinquencyA1-Total Loan Delinquency/Gross Loan Portfolio	≤ 5%	3.2	1.3	2.9	3.1
	A ₂ =Non-earning assets/Total assets	≤ 5%	9.8	4.3	4.6	7.5
4	Rate of return and cost					
	R5=Financial Cost: Saving Deposits/Average Saving Deposits	Market Rates > Inflation	49.0	6.5	5.4	5.1
	R ₈ =Gross Margin/Average Asset	≥ 10%	4.5	6.2	54.3	4.0
	R9=Operating Expenses/Average Total Assets	≤ 5%	3.4	4.5	2.2	4.0
	R ₁₂ =Net Income/Average Asset	≥ 10%	0.5	1.3	0.8	0.7
5	Liquidity					
	L1=Liquid Assets- ST Payables/Total Deposits	15-20%	40.2	31.1	21.2	13.9
	L ₂ =Liquidity Reserves / Total Savings Deposits	10%	34	28	20	12
	L ₃ =Non-earning Liquid Assets / Total Assets	< 1%	5.0	2.0	1.0	2.0
6	Sign of Growth					
	S1=Growth in Loan to members	Dependent on E1 between 70-80%	80.0	102.0	26.0	28.1
	S5=Growth in Saving deposits	Dependent on E5 between 70-80%	1683.0	100.5	34.6	46.2
	S10=Growth in Membership	≥ 15%	67.4	63.7	5.5	-19.8
	S11=Growth in Total Assets	> Inflation + 10%	NA	95.6	NA	34.8
	Rate of Inflation(Average CPI)	%	2.8	1.9	2.8	6.3

Note: For the year 2006 the data is not available fully, NA- Not Available

Sources: Computed from Czech National Bank Website Cited at

http://www.cnb.cz/en/financial_market_supervision/basic_indicators_fin_sector/credit_unions/index.html Accessed on 23-09-2009

The results for E1 was below the standard goals of excellence for all years that means lower percentage of total assets were invested in the loan portfolio(earning assets) while more than minimum standard was kept in liquid or non-earning assets for those years. Normally, excess liquidity is discouraged because the earning on liquid investments (e.g., savings accounts) is significantly lower than those earned on the loan portfolio investments. E5 indicates a healthy percentage of deposit savings of which the credit unions achieved financial independence and members do not oblige to save in order to borrow money. The conformity of E7 results with the required standard goal of excellence of WOCCU indicates that the Credit Unions had sufficient capital to finance their assets which was raised already by saving deposits so that there was no need to be financed by expensive share or borrowing.

Asset Quality

Regarding asset quality, two financial ratio indicators A1(Total Loan Delinquency/Gross Loan Portfolio) and A2(Non-earning assets/Total assets) were selected. From their calculated results, A1 met the standard norm sufficiently of which it indicates that high institutional strength to give protection for depositors or to maintain the delinquency rate below 5% of total loans outstanding. For A2 the calculated results were greater than established WOCCU standards ($\leq 5\%$) which shows unhealthy situation in the years 2004 and 2008 may be due to more assets kept in non-earning once which is more difficult to generate sufficient earnings on assets. For the years 2005 and 2007, calculated results were below 5% which indicates less assets were kept in non-earning and more assets were kept in earning assets for those years.

Returns on Assets

Returns on Assets provide insight into how efficiently a credit union is being run by management and their ability to generate profits from the assets available to the credit union. Loan portfolio income is usually the largest component of gross income therefore loan yield is often the single most influential element of net interest income. Investment income is usually the second largest component of gross income and an important element of a net interest margin. Yield on investments is also driven by external factors. Financial investment in bond(long the maturity) or short term maturity instrument has variable investment rates and cash flow which have an impact on the overall yield of the portfolio.

This part evaluates investment yield and operating expenses of credit unions. Under Rate of Return and Cost section: R5(Financial Cost: Saving Deposits/Average Saving Deposits), R8(Gross Margin/Average Asset),

R9(Operating Expenses/Average Total Assets) and (R12 Net Income/Average Asset) ratios were taken for analytical purposes.

- ❖ For R5 the calculated rate is greater than rate of inflation which the result indicates that the nominal rate of return from saving deposits is greater than inflation rate for those years except for year 2008.
- ❖ The standard norm says $R8 \geq 10\%$ but the actual calculated results indicate less than 10% except for the year 2007 which is to mean that credit unions were earned low return on loan portfolio and did not place its productive resources into investments that produce the higher yield. This may be as a result of providing cheaper loan or keeping more liquid assets or non-earning asset with them.
- ❖ The calculated results for R9 show conformity with the standards of goals of excellence established by WOCCU. The implication of this result is the minimization of financial costs paid on deposit savings, member shares and external loans and administrative expenses.
- ❖ Net Income/Average Asset (R12) ratio was by far less than standard goal (10%) during respective years. This is because of the provision of cheaper loan with low interest rate and keeping more liquid assets or non-earning asset. It also implies that there was insignificant investment on earning assets for Credit Unions in Czech Republic during the years under discussion.

Liquidity

The main concern in liquidity analysis is to meet its maturing obligation. As maintaining enough liquidity is useful to determine creditworthiness and identify potential threats to financial cooperative viability, a higher ratio indicates that the Credit Unions have less money invested in earning or non earning assets. On the other hand, even though high liquidity reserves are important, they imply a lost opportunity cost which earns negligible returns, in comparison with other investment alternatives. So, it is important to keep idle liquidity reserves to a minimum.

From the calculated results on table 1, for first three consecutive years, the liquidity ratios were above the standard range of values (10-20%) for L1(Liquid Assets-ST Payables/Total Deposits) which were greater than 20%. The calculated results for L2(Liquidity Reserves/Total Savings Deposits) were above target goal of 10%. During four consecutive years, L1 and L2 ratios had decreasing trends of which they were approaching to the standard goal of excellence. For L3(Non-earning Liquid Assets/Total Assets), the result shows that above 1% for the first 2 years and last year which disagrees with the standard norm of which the norm says that it should be below 1%. From these results, we can deduce that nearly for

all years some of the assets of the Credit Unions were kept in liquid and non-earning assets forms while only for L1 in the year 2008 the standard norm was maintained. This implies that Credit Unions didn't invest fully their assets in earning asset forms may be because of that to maintain short-term investment liquidity to respond to member-client withdrawal and disbursement demands which ensure confidence of members. Thus Credit Unions as a business enterprise, they should have to minimize their liquid reserves and non-earning assets to maximize their earnings.

Sign of Growth

Sign of growth is one of critical indicators among performance indicators of PEARLS financial ratios and it reflects financial strength of credit unions. For sign of growth assessment four growth indicators were taken namely growth in loan to members, growth in saving deposits, growth in membership and growth in total assets of credit unions sector. The growth rate for loan (S1) which is dependent on E1(Net loan/total assets) was growing positively even though there were up and downs during those years. For saving deposits growth (S5) surprising growth rate was recorded for 2004 which was 1683% but this growth rate was fallen to 35% in 2007. S5 is dependent on E5(saving deposits/total assets) ratio of which the calculated results for E5 met the standard goal and it implies that the Credit Unions perform well in saving mobilization from existing members during those years.

As it was indicated on the table above, the calculated results for membership growth(S10) was greater than the minimum standard goal(15%) of WOCCU standard for the first two consecutive years while this rate was decreasing to negative rate to -20% in 2008. This indicates that Credit Unions were losing existing members rather than mobilizing and attracting new members for that year.

With regarding to growth in total assets, even though there were no available data fully for those years, the growth rate was above the goal of excellence while this growth rate was decreased from 96% in 2005 to 35% in 2008. The comparison in growth of total assets is important as the goal of all credit unions is to achieve real positive growth (i.e., net growth after subtracting for inflation) each year. So the result implies that the growth in total asset is greater than inflation rate which is promising if it is productive/earning assets.

8.4 Opinions and ideas from Intellectuals and Officials about Credit Unions in the Czech Republic

A small discussion and survey were made to inquire ideas and opinions of officials and intellectuals about Credit Unions which are functioning now in the Czech Republic. This survey and discussion were done in few institutions due to inconvenience in language of communication for researcher so that the information was obtained from 21 respondents. The survey was done in 2 institutions namely Czech University of Life Science Faculty of Economic and Management and Cooperatives Association of Czech Republic on 13 intellectuals and 6 officials correspondingly. By distributing some questionnaires for few intellectuals of CULS from faculty Economic and Management and also for Officials of Cooperatives Association of Czech Republic, valuable ideas and opinions were obtained which is essential for the purpose of the study. A discussion was made with two officers from Czech National Bank (CNB) Financial Market Supervision Credit Institutions Supervision division. The discussion was made on designed questionnaire with *Mr. Radek Kříčka* Credit Institutions Supervision Division Director and *Ms. Jana Revendová* supervision officer of Credit Institutions Supervision Division from Czech National Bank Financial Market Supervision Department of which they gave valid information for this study. This part of the analysis was used to highlight opinions and perceptions of public about Credit Unions and the major part of the study dealt with performance analysis of growth trends and financial ratios indicators. Thus, the ideas and opinions were obtained through discussion with officials of Czech National Bank and from survey on some intellectuals of Czech University of Life Science and officials of Czech Cooperatives Association are identified as follows.

- ❖ Due to bad experiences (that of mission failure as result of corruption and weak supervision) were seen during the period 2000 to 2003, the perceptions about Credit Unions were not good.
- ❖ The importance of Credit Unions in tackling socioeconomic problems was underlined by many of intellectuals and officials.
- ❖ As most of respondents argued, an expansion of Credit Unions is assumed as profit making organization besides securing social objective as well because now time is changed. Even if as business enterprise profit is generated, the primary objective should not profit similar to microcredit institution whose main objective is to deal with socioeconomic problems.
- ❖ There were ideas which say that expansion of Credit Unions in Czech Republic is difficult due to saturation of market and uncertainty of financial market and also distrust by population due bad experiences during 2000 to 2003 period,
- ❖ Credit Unions should work hard and devise ways how to bring back lost public trust for expansion.

- ❖ Credit unions can not competing with other Financial Enterprises like Commercial Bank to make profit because of scale of operation but it can operate in some localities where Banks do not work and financial services are not available and also it depends on their strategy. On the other hand, Credit Unions provide cheaper loan to address issue of excluded community for financing which is main objective but making of profit does not coincide with provision of cheaper credit.
- ❖ The major stakeholders of Credit Unions are members' society, employee, Government, civil society, NGOs and Churches.
- ❖ The Roles of government were identified as formulating appropriate rules and regulations, setting appropriate institutions and standards for monitoring and controlling of Credit Unions, enforcing rules and regulations which are creating possibilities for CUs expansion and
- ❖ Officials from CNB Credit Institutions Supervision division stressed that since 2006 as the activities of supervision and monitoring were transferred to them, due to favorable rules and regulations for Credit Unions and enforcement of those regulations by CNB, there was a positive development in CUs function during last 4 years.

8.5 SWOT Analysis of Saving and Credit Co-operatives Performance in the Czech Republic

Strength, Weakness, Opportunities and Threat (SWOT) analysis is the key components of a credit union performance assessment. The components include its Asset Quality, Liquidity, Earning, Growth, rules and regulation, and external environments and so on.

Table-2- SWOT Analysis for Credit Union in the Czech Republic during 2004-2008

Strength	Weakness
<ul style="list-style-type: none"> • Strong financial protection against loan losses(safe money protection for depositors) was indicated by financial protection ratio indicators were nearly double of minimum standards, • Since 2004 continuous growth in saving deposits, loan to members, membership and total assets, • Moderate asset quality for CUs as it met the standards level for most years, • Lower operating expenses for CUs as it was below maximum standard for 2004 to 2008, • Conducive regulation and supervisory frameworks and also Centralized Institution with qualified and professional experts for supervision of Financial Institution under Czech National Bank and additionally by Ministry of Finance, 	<ul style="list-style-type: none"> • Since 2000 no establishment of new CUs even decreasing in the numbers of existing ones, • CUs were concentrated in cities for instance out of 17 CUs in 2008, 10 of them were in Prague (see supplement table 3). • Bad perception about Credit Unions by Public of which there was weakness in reversing public distrust, • Weaker effective financial structure which was resulted in low return and demonstrated by net loan/total assets and gross margin/average assets ratios were by far below the minimum standards of WOCCU. • Excess liquidity and insignificant investment in financial assets such as shares and bonds.
Opportunities	Threats
<ul style="list-style-type: none"> • Supportive EU Banking Directives and Legislation for Credit Institutions and Credit Unions. • Better awareness and emphasis about the potential roles of financial cooperatives were increased by international Organizations such as UN, WB, and IMF. • Successful and well developed experiences of CUs from EU member states such as neighboring Poland, Ireland, and UK. 	<ul style="list-style-type: none"> • Globalization: The incursion of foreign commercial institutions in to domestic countries is threats to local credit unions. • Current Financial Crisis and volatile financial market: Financial crisis may endanger CUs liquidity position of which credit unions should attract more savings by rising in interest rate for depositors. This will result in high interest rate on loan disbursement to members which are difficult for members.

9. Conclusion and Recommendation

9.1 Conclusion

Saving and Credit Co-operative (SCC) provides an opportunity to people to work together to fulfill their common benefit. It is an alternative mean of financing other than high cost credit supplies and a potential institution should be explored to indicate its potential in empowering financially excluded community. So this study has been concerned to explore existing potentialities for Credit Unions growth and to indicate possibilities for sustainable co-operative development in the case of Czech Republic.

The Saving and Credit Co-operative Movement has 160 years of tradition in Czech Republic. It was first established in 1845 with the objectives to avert the adverse effects of the market economy and to improve the socioeconomic conditions of people whose members were small farmers and craftsmen. Since then, Saving and Credit Co-operative have passed under different economic, social and political conditions. From 1845-1918 under the Austro-Hungarian Monarchy and during 1918-1938 as the independent state of Czechoslovakia. The latter period was a very favorable period for considerable expansion of co-operatives. From 1938 to 1945 was a period when the country was under Nazi occupation and co-operatives were utilized for their advantage. The period 1945 to 1989 was the worst period where the activities of saving and credit co-operatives ceased to exist due to the then existing Communist ideology.

After *the Velvet revolution* of 1989, the re-establishment of Saving and Credit Co-operatives (traditional known as *Kampelichkas*) came in to being with the adoption of act no.87/95 based on the commercial code of conduct. The old *Kampelichkas* were operating mostly in small rural areas with social roles but the new *Kampelichkas* which were established after 1996 are expected to accomplish an economic role as well as solving various social and other problems, and they are mostly found in towns.

Since 1996 many SCCs have been established and at the same time many of them have been bankrupted and liquidated. During the first 4 years (1996-1999) the numbers of CUs grew sustainably but starting from 2000 the reverse was happened which continued until 2008. The main causes for bankruptcy and liquidation of many CUs during those years were: deficiency in the law, corruption, lack of permanent control from both members and the state, lack of mutual solidarity of members and unqualified management. As these problems were recognized, state organs such as the police and judiciary considered the financial

losses and the government tried to amend existing regulations and enforce laws and cooperative principles.

Starting from 2004 onwards progressive performances in saving deposits, loan disbursement and total assets were seen even if the number of CUs decreased continuously. These improvements came as the result of government intervention in amending existing regulations, formulating and adopting appropriate rules and regulations, strengthening the supervisory state organizations to avert any ethical misconduct.

To do an analysis of Credit Unions' Financial Performance and to inquire some findings, *WOCCU PEARLS financial ratio indicators* have been utilized. These ratio indicators measure *6 key areas* of a Credit Union's financial performance namely: *Protection, Effective financial structure, Asset quality, Rate of return and cost, Liquidity and Sign of growth*. The importances of these ratios are to identify the strengths and weaknesses of existing Credit Unions and to indicate future potential for growth. Accordingly, the results from financial ratios analysis using *PEARLS ratio indicators* for Credit Unions of the Czech Republic show that:

- ❖ High protection was given to the money of depositors by surviving CUs that is the loans losses allowances ratio indicates high protection for delinquent loans. This was done purposely to increase the confidence of public and to attract new members.
- ❖ Effective Financial structure affects growth potential, profitability or earning capacity and efficiency. The results of ratio indicators for effectiveness of financial structure show that more assets above standard level were kept in non-productive form mainly in liquid assets.
- ❖ Asset quality needs improvement because non-productive assets i.e. high liquidity made up too large a proportion of the total.
- ❖ Lower return on assets than required due to cheaper loans, insignificant investment in financial assets (bond and share) and the holding of some assets in non-productive liquid form.
- ❖ There were high liquidity ratios than minimum standards implying that the Credit Unions didn't fully invest their assets in earning asset form because Credit Unions wanted to maintain short-term liquidity to respond to member-client withdrawal and disbursement demands which ensure confidence of members.
- ❖ After 2004 the growth rates for loans, saving deposits, membership, and assets were grown at erratic positive rates which indicate the existence of potential for future growth of Credit Unions in the Czech Republic.

9.2 Recommendation

Safe protection for depositors' money by CUs, high liquidity position of Credit Unions, conducive rules and regulations, the strong supervision by Czech National Bank, rich experience from other EU member states, greater awareness and support by International Organizations (e.g. UN and USAID) and NGOs (e.g. VOCA) and supportive EU banking directives and Credit Unions legislations have all been favorable conditions for growth of Credit Unions in the Czech Republic. Thus, these favorable conditions have made expansion of saving and credit co-operatives in the Czech Republic possible in the following ways.

- a) Expansion of existing Credit Unions is possible by admitting more members to already existing co-operatives and rising members' saving deposits without establishing new ones. This possibility was seen from the case of Poland CUs.
- b) Expansion of the activities of existing CUs to localities where there is no competition from Commercial Banks and other financial intermediaries, or to the areas where financially excluded communities and Organizations exist.
- c) Establishment of new CUs in those areas where there are no other financial intermediaries or to the areas of financially excluded communities and organizations. This involves organizing and establishing new Credit Unions in the financially excluded localities, potential organizations, industries and firms. For instance establishing CUs at work place like that of the Credit Union of Ministry of Defense in the Czech Republic "*Vojenská družstevní záložna*".

The main issues to be addressed for sustainable growth of CUs in the Czech Republic are:

- ❖ First of all, there should be real membership, solidarity and strict confinement to the principles of cooperatives for success and sustainable CU development. The great proverb by *Dr. Cyrill Kampelik* "*What is impossible for one, is easy for all together*" should be followed and adhered to,
- ❖ As a result of the bad experience that occurred in the CU sector during the period 2000 to 2003, public perception of Credit Unions was not good. So the renewal of public trust and changing the public attitudes towards CUs should be the first task for Credit Unions.
- ❖ Addressing the ethical problems with the strict application of ethical banking principles, rules and regulations should be there as the main objectives are social as well as commercial.
- ❖ Utilize good experiences from better performing neighboring countries like Poland and other EU member States,

- ❖ Strengthening existing CU by membership expansion, expanding its deposit raising, loan disbursement functions to financial excluded areas, communities and organizations,
- ❖ Formulating and enforcing appropriate regulations and legislation, changing them as needed,
- ❖ Service diversification to widen earning possibilities and to reduce risks of credit repayment,
- ❖ To maximize their earnings, credit unions should minimize their liquid reserves and non-earning assets,
- ❖ Strengthening the qualified and competent professional capacity of CUs to that of commercial banks and
- ❖ Credit Unions should equip their board members with the necessary mix of skills to run a successful and sustainable credit union even though it may be difficult at times for some employee credit unions with closed common bonds with diverse disciplines.

≈

10. Bibliography

1. Armbruster P.(2005): *The Role And Importance Of Savings And Credit Cooperative In Micro financing And The Worldwide Activities Of The German Cooperatives And Raiffeisen Confederation(DGRV)*,2005,Berlin-Bonn-Germany, www.sozialstruktur.org/en/files/Rolle20Genoenglisch.doc accessed on 02-06-2009
2. Arthur B.(2006): *An Economic History of Europe 1760-1930*. Routledge 2 park square, Milton Park, Abingdon, Oxon, OX144 RN, Reprinted in 2006
3. Bierecki G.: Success Story of the polish credit union movement. SKOK, http://www.mfc.org.pl/doc/Conference/Warsaw04/2_3GB_eng.pdf?PHPSESSID=30876d1fb9a6f8306a90aeb1c05c1159, accessed on 04-01-2010
4. Birchall J.(1997): *The International Co-operative Movement*. Manchester University Press Oxford Road, Manchester M13 9NR, UK, ISBN 0-7190-4823-0
5. Briscoe R. and Ward M.(2000): *The Competitive Advantages of Co-operatives, Center for Co-operative Studies*. National University of Ireland, Cork Ireland ISBN 0 946503 141
6. CNB(2004): Banking Supervision Report 2004. Prague 1, Příkopě 28, cited at http://www.cnb.cz/m2export/sites/www.cnb.cz/en/supervision_financial_market/aggregate_information_financial_sector/archive/banks/download/bd_2004_a.pdf accessed on 20-02-2010
7. CGAP(2005): Working With Savings & Credit Cooperatives. *Donor Brief No. 25, August 2005*, http://www.cgap.org/gm/document-1.9.4396/DonorBrief_25.pdf accessed on 2-13-2009
8. Co-operative Association of Czech Republic (CACR): Selected Data on The Czech Co-operative Movement in 1996, ..., 2008. CACR. *Yearly bulletin for 1996,..., 2008 respectively*, Prague Těšnov 5
9. Czech National Bank: http://www.cnb.cz/en/financial_market_supervision/basic_indicators_fin_sector/credit_unions/index.html accessed on 22-12-2009
10. DGRV(2005): The Role And Importance Of Savings And Credit Cooperatives In Micro financing And The Worldwide Activities Of The International Year of Microcredit 2005, www.sozialstruktur.org/en/files/RolleGenoenglisch.doc accessed 02-06-2009
11. European Network of Credit Union: <http://www.creditunionnetwork.eu/> accessed 10-11-2009
12. Evans A. and Richardson D.(1999): *Polish Credit Unions Success*. WOCCU, September 1999, Research Monograph Series No. 17, Madison WI 53701-2982 USA
13. Galor Z.(2003): Saving And Credit Cooperatives: A New Conceptual Approach, December 2003, www.ruralfinance.org/cds_static/en/saving_credit_cooperatives_new_conceptual_en_21376_11978.html accessed 06-03-2009
14. International Co-operative Alliance(ICA): <http://www.ica.coop/coop/index.html> accessed on 26-11-2009

15. Jazayeri A.(2006): The Design and Role of Financial Cooperatives–Learning from History, January 2006
http://www.europeanmicrofinance.org/data/file/cooperative_in_germany_desigrole.pdf
 accessed on 24-05-2009
16. Jones P. A.(2005): Creating wealth in the West Midland through sustainable credit unions. An Action Research Report. ABCUL February 2005
http://www.ljmu.ac.uk/HEA/HEA_Docs/R5_Executive_Summary_Creating_Wealth.pdf
 accessed 06-01-2009
17. Jones P. A.(2007): *Connecting Credit Unions and Money Advice*. Liverpool John Moores University-Faculty of Health and Applied Social Sciences, LJMU, May 2008, ISBN 978-0-9553997-9-4
18. Jones P. and Rahilly S.(2006): *Enterprise in Disadvantaged Communities*. Liverpool John Moores University- School of Applied Social and Community Studies, LJMU June 2006, ISBN 0-9553997-0-X
19. Jones P.(1999): *Towards Sustainable Credit Union Development*. Liverpool John Moores University, March 1999, ABCUL, ISBN 0 9506281 66
20. Jones P.A and Decker S.(2007): *The Development of Southwark Credit Union 1982-2007*. Liverpool John Moores University-School of Applied Social and Community Studies, LJMU, November 2007, ISBN 978-0-9553997-4-9
21. Jones P.A. and Goggins N.(2007): Credit Union and CDFI Training and Development Needs Analysis. DWP Newcastle, may 2007
http://www.ljmu.ac.uk/HEA/HEA_Docs/DWP_Credit_Union_and_CDFI_TDNA.pdf
 accessed 06-01-2009
22. Jones P.A.(2001). “*The Growth Of Credit Unions And Credit Co-operatives – Is The Past Still Present?*” chapter in Mayo E and Guene C. Eds.“*Banking and Social Cohesion. Alternative Responses to a Global Market*”. Jon Carpenter Publishing, Oxford ISBN 1-897766-69-6
23. Jones P.A.(2001). *From Small Acorns to Big Oaks – a study into the development of credit unions in rural England*. The Countryside Agency and ABCUL (2001), ISBN 0-9506281-7-4
24. Jones P.A.(2002): *Modernizing Credit Unions, Guatemala Co-operative Strengthening Project 1987-1994*. New Economics Foundation and ABCUL ISBN 0-9506281-8-2
25. Jones P.A.(2004), Growing Credit Unions in the West Midlands Journal of Co-operative Studies Vol 37: 1 (N0 110)April 2004
http://www.ljmu.ac.uk/HEA/HEA_Docs/5_Growing_Credit_Unions__April_2004.pdf
 accessed 06-01-2009
26. Jones P.A.(2002): *Modernizing Credit Unions, Guatemala Co-operative Strengthening Project 1987-1994*. The Association of British Credit Unions Ltd (ABCUL) Holyoake House, Hanover Street Manchester, M60 0AS ISBN 0-9506281-8-2
27. Karen O.(1994): The Czech Co-op Movement after its Political and Economic Transformation. International Co-operative Alliance, June 1994,
<http://www.uwcc.wisc.edu/icic/orgs/ica/pubs/review/vol-87-2/czech.html>, accessed on 09-10-2009

28. Krahn J. and Schmidt R.: On the theory of credit cooperatives: Equity and on lending in a multi-tier system-A concept paper. *POVERTY-ORIENTED BANKING Working paper No. 11 International Labour Office Geneva, 1995*, ISBN 92-2-110017-0
29. McIntyre R.(2006): Credit Co-operatives in Locally Financed Economic Development: Using Energy Efficiency as a Lever. *Research Paper No. 2006/17. UNU-WIDER, February 2006*, Russian Academy of Sciences, Moscow
30. Mizis N.(2001). Credit Unions – Philosophy, Policy and Regulation, NIS Policy Forum on Microfinance Law and Regulation. European WOCCU, Krakow, Poland June 21, 2001, http://www.docstoc.com/docs/24359602/Credit_Unions_Philosophy accessed 20-09-2009
31. Němcová L.(2004): The collapse of the Czech credit cooperatives - lack of confidence (case study from the period 1990 - 2003). *ICA 2004*, <http://www.uv.es/iudescoop/abstracts/Nemcova.pdf> Accessed on 12-10-2009
32. Němcová L.(2005): From solidarity to Robbery: Credit Cooperatives in Czechoslovakia. *Finance and Common Good, No. 21-Spring 2005*, Geneva
33. Němcová L.(2007): The role of Trustfulness for the Success in Finances (Case Studies of Czech Credit Cooperatives). *Acta Oeconomica Pragensia, roč.15, č. 7, 2007*, <http://www.vse.cz/aop/pdf/209.pdf> accessed on 12-10-2009
34. Němcová L.: Problems of Business Ethics in Czech Co-operatives in the Transformation Period. University of Economics, Prague, Czech Republic, <http://eh.net/XIIICongress/cd/papers/63NemcovE1338.pdf> accessed on 12-10-2009
35. Richardson D.(2002): *PEARLS Monitoring System*. WOCCO, October 2002. Madison, Wisconsin 53701-2982 USA
36. Rural Credit Cooperative Pilot Programs and Evaluation: <http://www.adb.org/Documents/Books/Establishing-Framework/chap3.pdf> accessed 26-06-2009
37. Seibel H.(2003): History matters in microfinance: Small Enterprise Development – *An International Journal of Microfinance and Business Development, vol. 14, no. 2, June 2003*, http://opus.zbw-kiel.de/volltexte/2004/2002/pdf/2003_5_History_matters.pdf accessed 06-03-2009
38. Siudek T.(2010): *Polish cooperative banking sector in the face of systemic transformation and European integration. Faculty of Economic Sciences, Warsaw University of Life Sciences, Warsaw, Poland(Unpublished)*
39. United Nations: The Family Status and role of cooperatives in the light of new economic and social trend. *Report of the Secretary-General, General Assembly Fifty-first session Item 102 of the provisional agenda**A/51/150, 6 August 1996*, Geneva
40. Vávrová V.(1992): The Co-operative Movement's Development on the territory of CSFR. *Co-operatives Association of Czechoslovakia Federation Republic, 1992 Prague*. ISBN 80-7063-063-9
41. Vávrová V., Juračka Z., Tlapák F., Svodoba P., Vostálová M., Korbelař J., Svoboda J., and Lébl F.(2006): 160 Years of the Cooperatives Movement in the Czech Republic 1847-2007. *Cooperative Association of the Czech Republic, August 2006, Prague-Těšnov 5*. ISBN 80-239-7279-0
42. World Council of Credit Unions: <http://www.woccu.org/> accessed on 20-10-2009

11. Supplements

11.1 Questionnaire

A. English Version

Questionnaire for concerned Officials and Intellectuals

I. Note

- This questionnaire was designed with an intention to get ideas, opinions and suggestions from concerned higher officials and intellectuals on Diploma Thesis with a title “Saving and Credit Co-operatives Possibility in the Czech Republic”. This will be written for The Czech University of Life Science Department of Economic and Management. I value your opinion in assisting me to write my Thesis. Be sure that your response is confidential and
- ‘Saving and Credit Co-operatives’ and ‘Credit Union or Credit Co-operatives’ are used in the same way. Thank you in advance!

II. Respondent Information (Optional)

Present Position or Status: _____

Educational Background/BSc, MSc/ING, PHD: _____

Field of Specialization: _____

Area of Work Experience: _____

Age: _____

III. Please, confirm your answer by putting X inside the box

1. Did you know about Saving and Credit Co-operatives in Czech Republic before?

Yes No

2. Which saving and credit co-operatives do you know about? Please, can you mention them? _____

3. How do you rank credit co-operatives performance in this country? A) Excellent B)

Good C) Poor

4. If your answer for question 3 was Poor, what were the main reasons? _____

5. Do you think that Credit and Saving Co-operatives are important in tackling socio-economic problems of people in the Czech Republic or else where? Yes No

6. If your answer for question 5 was yes, which problems are they tackling? _____

7. If your answer for question 5 was yes, how do you rank its importance? A) Very important B) Important C) Not important

8. If your answer for question 5 was no, why not? _____

9. Do you think that expansion of Credit Co-operatives is possible these days? Yes No

10. If your answer was yes for question 9, in what ways? A) As a non-profit organization

B) As a profit making organization C) Another way (specify) _____

11. If your answer was no for question 9, what are the major reasons for this?

12. Can saving and Credit Co-operatives compete with other Financial Enterprises such as commercial Banks? Yes No

13. If your answer was no for question 12, why not? _____

14. Whom do you think are the major stakeholders (groups interested in) other than members' society? _____

15. What should be the roles of Government in Credit Union expansion?

16. Further Ideas, Opinions and comments: _____

Thank you for your Valuable reply!

B. Czech Version

Dotazník pro zainteresované pracovníky a odborníky

I. Poznámka:

- Účelem tohoto dotazníku je získat názory a doporučení pro diplomovou práci s názvem "Možnosti spořitelních a úvěrových družstev na příkladu České republiky". Diplomová práce je zpracovávána pro Českou zemědělskou univerzitu v Praze, provozně ekonomickou fakultu, katedru managementu. Cením si Vašeho názoru, který mi bude nápomocen pro zpracování diplomové práce. Ujist'uji Vás, že veškeré údaje, které mi poskytnete, budou důvěrné.
- Pojmy 'spořitelní a úvěrová družstva' a 'úvěrové společnosti nebo úvěrová družstva' jsou pro účely dotazníku použity ve stejném významu. Děkuji Vám předem za spolupráci!

II. Údaje o respondentovi/respondentce

Současné pozice nebo postavení v

zaměstnání: _____

Dosažené vzdělání/titul /Bc. Mgr., Ing,

apod./: _____

Obor Specializace: _____

Oblast pracovních zkušeností: _____

Věk: _____

III. Prosím, zaškrtněte správnou odpověď X

1. Slyšeli jste někdy o Spořitelních a úvěrových družstvech v České republice? Ano Ne

2. Které spořitelní a úvěrová družstva znáte? Prosím, uveďte názvy:

3. Jak hodnotíte výkon spořitelních úvěrových družstev v ČR? A) Výborný B) Dobrý
C) Špatný

4. Je-li vaše odpověď na otázku 3 “špatný”, jaké jsou hlavní důvody?

5. Myslíte si, že úvěrová a spořitelní družstva jsou důležitá pro řešení sociálně-ekonomických problémů lidí v České republice nebo jinde? Ano Ne

6. Pokud vaše odpověď na otázku č. 5 byla „ano”, jaké problémy řeší?

7. Pokud Vaše odpověď na otázku č. 5 zněla “ano”, jak byste ohodnotili význam těchto problémů? A) Velmi důležité B) Důležité C) Není důležité

8. Pokud jste odpověděli na otázku č.5 “ne”, uveďte prosím důvody.

9. Myslíte si, že je v dnešní době možné a vhodné další rozšíření úvěrových družstev?

Ano Ne

10. Je-li vaše odpověď na otázku 9 “ano”, jakým způsobem? A) Jako neziskové organizace
 B) Jako ziskové organizace, C) Jiným způsobem (upřesněte)

11. Pokud byla vaše odpověď na otázku č. 9 “ne”, jaké jsou hlavní důvody?

12. Myslíte si, že spořitelní a úvěrová družstva jsou schopna soutěžit s jinými finančními institucemi, jako jsou komerční banky? Ano Ne

13. Pokud vaše odpověď na otázku č. 12 byla “ne”, uveďte prosím důvody.

14. Kteří hlavní aktéři by podle vašeho názoru měly být zapojeny kromě členů družstva'?

15. Jaká by měla být role vlády v expanzi spořitelních a úvěrových společností?

16. Uveďte prosím další postřehy, názory a připomínky:

Děkuji Vám za Váš čas a za Vaše odpovědi!

11.2 Supplementary Data Tables

Supplement Table -1- Credit Unions(CUs) growth trends during(1996-2008) in the Czech Republic

No	Item	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1	Number of CUs	57	70	75	110	88	45	46	42	33	20	20	18	17
2	Percentage growth in number of CUs		23	7	47	-20	-49	2	-9	-21	-39	0	-10	-6
3	Number of members of CUs	6707	25533	63301	126486	111744	10876	14200	11174	18700	30611	42451	44789	35921
4	Percentage growth in number of Membership		281	148	100	-12	-90	31	-21	67	64	39	6	-20
5	Total Deposits(savings) of the members of CUs(in millions CZK)	176	1126	4485	10451	10480	10984	959	88	1569	3146	5224	7031	10282
6	Percentage growth in the amount of members' deposit		539.77	298.31	133.02	0.28	4.81	91.27	90.82	1682.95	100.51	66.05	34.59	46.24
7	Total Loan to members of CUs(in millions CZK)	45	372	1900	NA	NA	355	576	758	1364	2756	4155	5219	6676
8	Percentage growth in the amount of Loan disbursed to members'		726.67	410.75	NA	NA	NA	62.25	31.60	79.95	102.05	50.76	25.61	27.92
9	Saving societies in Liquidation				3	44	54	51	46	44	46	41	33	32
10	Saving societies in Bankruptcy				0	6	19	30	32	34	33	27	29	24
11	Saving societies in receivership				3		6	1	0	0	0	0	0	0

Sources: Compiled from Czech National Bank cited at http://www.cnb.cz/en/financial_market_supervision/supervision_credit_unions/index.html accessed on 09-21-09 and from Co-operative Association of Czech Republic selected Data on The Czech Co-operative Movement for the years 1995-2008

Supplement Table -2- Number and members of different Cooperatives during 1996- 2008 in the Czech Republic

No	Item/Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1	Total Number of Co-operatives	2214	2565	2418	2684	2688	2749	2906	2958	2959	2992	2983	3093	3089
1.1	Co-operatives member of CACR Union	2157	2495	2343	2574	2600	2704	2860	2916	1798	1574	1395	1404	1349
	UCMHC	578	996	1045	1311	1379	1541	1764	1854	755	631	653	681	635
	UCMCC	70	69	69	66	64	64	63	62	62	61	59	59	57
	UCMPC	428	419	402	388	366	353	335	314	303	274	271	255	249
	AACR	1081	1011	827	809	791	746	698	686	678	608	412	409	408
1.2	Co-operatives are not members of CACR	57	70	75	110	88	45	46	42	1161	1418	1588	1689	1740
	Housing Co-operatives									1128	1236	1384	1479	1543
	Agricultural Co-operatives										162	184	192	180
	Financial Co-operatives	57	70	75	110	88	45	46	42	33	20	20	18	17
2	Total Number of Members	730080	703032	679636	672643	625256	485321	1212782	1161948	1079751	1038866	1015636	989815	942553
2.1	Co-operatives member of CACR Union	719580	677499	617336	547643	513516	474445	1198582	1150774	1027085	970940	931099	891682	853116
2.2	Co-operatives are not members of CACR	10500	25533	62300	125000	111740	10876	14200	11174	52666	67926	84537	98133	89437
	Housing Co-operatives									33966	37315	42086	53344	53516
	Agricultural Co-operatives													
	Financial Co-operatives	10500	25533	62300	125000	111740	10876	14200	11174	18700	30611	42451	44789	35921

Note: CACR-Co-operative Association of Czech Republic, UCMHC-Union of the Czech and Moravian Housing Co-operatives, UCMCC-Union of Czech and Moravian Consumer Co-operatives, UCMPC-Union of Czech, Moravian Production Co-operatives and AACR- Agricultural Association of the Czech Republic
 Sources: Compiled from Co-operative Association of Czech Republic selected Data on The Czech Co-operative Movement for the years 1995-2009

Supplement Table-3- Distribution of functioning Credit Unions in the Czech Republic as found of 30-09-2009

No.	Company number	Name of Credit Union	Adress		Date started function
			Specific Place	City in Czech Republic	
1	25778722	<u>1. investiční záložna - spořitelní a úvěrní družstvo</u>	Kopeční 1009/12	Ostrava, Slezská Ostrava	08.07.1999
2	63492555	<u>1.TZ, družstevní záložna</u>	Hasskova 22	Třebíč	26.02.1996
3	64946851	<u>AKCENTA, spořitelní a úvěrní družstvo</u>	Gočárova třída 312	Hradec Králové	20.02.1996
4	25783301	<u>Citfin, spořitelní družstvo</u>	Radlická 751/113e	Praha 5	26.07.1999
5	64946649	<u>Družstevní záložna Kredit</u>	V Celnici 1028/10	Praha 1	24.01.1996
6	64946835	<u>Družstevní záložna PSD</u>	V Celnici 1028/10	Praha 1	20.02.1996
7	64946843	<u>Fio, družstevní záložna</u>	V Celnici 1028/10	Praha 1	20.02.1996
8	25571150	<u>Metropolitní spořitelní družstvo, zkratka MSD</u>	Orlí č.p. 482, or.č. 3	Brno-město	03.08.1999
9	25307835	<u>Moravský Peněžní Ústav - spořitelní družstvo</u>	Senovážné náměstí 1375/19	Praha 1	15.08.1996
10	64508889	<u>Peněžní dům, spořitelní družstvo</u>	Havlíčková 1221	Uherské Hradiště	18.03.1996
11	63083868	<u>Podnikatelská družstevní záložna</u>	Celetná 17/595	Praha 1	01.01.1996
12	26137755	<u>ROYAL CAPITAL družstevní záložna</u>	Fugnerovo nám. 1808/3	Praha 2, Nové Město	14.12.1999
13	25053892	<u>UNIBON - spořitelní a úvěrní družstvo</u>	Velká 2984/23	Ostrava, Moravská Ostrava	28.05.1996
14	25072285	<u>Vojenská družstevní záložna</u>	Čs. armády 22	Praha 6, Bubeneč	01.10.1996
15	25780450	<u>WPB Capital, spořitelní družstvo</u>	Jeruzalémská 1321/2	Praha 1	13.07.1999
16	27444376	<u>České spořitelní družstvo</u>	Přílepská 1692	Roztoky	27.03.2006
17	25791583	<u>Úvěrní družstvo PDW, Praha</u>	Lípová 1444/20	Praha 2	25.08.1999

Source: National Bank of Czech Republic, cited at http://www.cnb.cz/en/financial_market_supervision/basic_indicators_fin_sector/credit_unions/index.html accessed on 23-10-2009

Supplement Table-4- Comparison of the relative performance of Czech Republic and Poland Credit Unions

No	Year/Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1	Number of CUs Czech Republic		57	70	75	110	88	45	46	42	33	20	20	18	17
2	Number of CUs Poland	128	168	202	220	237	146	144	120	109	83	75	70	67	62
3	Percentage growth in the number of CUs Czech Republic			22.8	7.1	46.7	-20.0	-48.9	2.2	-8.7	-21.4	-39.4	0.0	-10.0	-5.6
4	Percentage growth in number of CUs Poland		31.3	20.2	8.9	7.7	-38.4	-1.4	-16.7	-9.2	-23.9	-9.6	-6.7	-4.3	-7.5
5	Number of members of CUs (in '000)-Czech Republic		7	26	63	127	112	11	14	11	19	31	43	45	36
6	Number of members of CUs (in '000)-Poland	85	138	194	259	306	395	525	703	924	1,169	1,395	1,551	1,607	1,856
7	Percentage growth in Membership of CUs Czech Republic			280.6	148.2	99.8	-11.6	-90.3	30.3	-21.1	67.0	63.6	38.9	5.4	-19.6
8	Percentage growth in Membership CUs Poland		61.97	40.58	33.51	18.15	29.08	32.91	33.90	31.44	26.52	19.33	11.18	3.61	15.49

Sources: <http://www.ocdc.coop/Sector/Insurance/tuwskokpoland.pdf>; <http://www.mfc.org.pl/doc/poland3.pdf> and http://nbp.gov.pl/en/systemfinansowy/fsd_2007.pdf accessed on 30-01-2010

Supplement Table-5-Credit Union Performance in Poland 1996- 2008, in millions Zloty

No	Item	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1	Numbers of Credit Unions	168	202	220	237	146	144	120	109	83	75	70	67	62
2	Members in '000	138	194	259	306	395	525	703	924	1,169	1,395	1,551	1,607	1,856
3	Total Saving Deposits(in Millions Zloty)	193.9	303.6	513.9	733.1	985.6	1,566.4	2,230.6	3,076.9	3,800.0	4,988.6	5,553.3	6,705.0	8,604.0
4	Total Loans to members(in Millions Zloty)	163.8	272.6	417.9	662.2	857.3	1,761.2	1,642.4	2,176.3	2,900.0	3,502.9	4,045.7	5,147.0	6,921.0
5	Total Assets(in Millions Zloty)	219.5	358.3	590.4	882.8	1,199.4	1,752.4	2,455.1	3,345.9	3,519.0	5,329.0	5,980.4	7,304.0	9,408.0

Sources: <http://www.ocdc.coop/Sector/Insurance/tuuskokpoland.pdf>; <http://www.mfc.org.pl/doc/poland3.pdf> and http://nbp.gov.pl/en/systemfinansowy/fsd_2007.pdf accessed on 30-01-2010

