

## **Innovation in governance: The case of the Fiji Nursing & Associates Credit Union**

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### **Abstract**

The Fiji Nursing and Associates Credit Union (FNACU) is a notable success story in the cooperative sector in Fiji. This paper discusses the background, financial status and problems faced by the FNACU and the factors that contributed to its success. The published materials including reports, minutes of meetings and financial statements were studied. The case study discussed resulted from these meetings, observations and visits. The performance of the cooperative took into account its profitability, benefits received by the members, homogeneity of their memberships, and the key role played by the Bergengren Credit Union Training School and the Fiji Credit Union League in making FNACU a success story.

**Key words:** consumer cooperative, credit union, financial statements, loans, membership, retirement benefits

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## **Introduction**

The International Cooperative Alliance (International Co-operative Alliance Report, 2005) has defined cooperatives as an association of people voluntarily united to meet their common social, economic and cultural needs through a democratically elected and jointly owned enterprise. In a *Consumer Cooperative*, a group of consumers form an organisation to provide goods and services for their members. The members own a share in the business and a bonus is paid to them at the end of the year, based on services received. A credit union has been defined as being a cooperative that offers loans to their members from the pool of savings that are built by the members themselves (Ward & McKillop, 1997). Thus, a credit union is a type of *Consumer Cooperative* that is geared to provide banking and loan services to its members. These loan facilities are available on the strength of shares in the organisation. The general concepts are to educate members in credit union matters and to promote thriftiness amongst them. So a credit union prospers when their members borrow heavily and repay their loans on time.

The credit union enterprises are more suitable for practising cooperative principles and concepts. The Fiji Nursing & Associates Credit Union (FNACU) is one of the successful cooperatives in Fiji. After the initial membership drive, a steady income is derived from members' contributions and interest on loans to members to generate further sources of income. The members are encouraged to deposit their savings on a regular basis through fortnightly salary deductions from their employer. These funds are used to lend to other members in need. The members are charged a monthly interest of 1% on their loans.

## **Background**

The FNACU operated on similar lines to other credit unions. The FNACU was initiated in 1977, with only 15 members by the executives of the Fiji Nurses Association. At that time it was realised that the Fiji Public Service Credit Union was too large an organisation and could not accommodate the specific needs of every civil servant, especially the nurses. Nurses viewed themselves as the lowest paid and hardest working employees in the country. In order to get their loans processed promptly and efficiently there was a need for a separate organisation to attend to them. The executive members of Fiji Nurses Association persuaded the nurses to form their own credit union that would assist them in obtaining loans. The president, secretary and the committee members were appointed to administer the operations of the FNACU. By then there were 100 members in the credit union.

The FNACU advertises their vision, mission and core values on their website and this is also reinforced in their Annual General Meetings and their Annual reports. The FNACU trained their staff regularly at the Bergengren Credit Union Training School in Suva. Seminars and short courses were conducted in the evenings on financial aspects of a business. It also covered other important topics like credit union philosophies, credit union management, leadership qualities, general counselling, family finance, public speaking, credit union laws and structure of unions.

The case study was conducted through interviews with the administrative staff of the FNACU including the president, secretary and committee members. A range of documents were also reviewed including internal documents, published annual reports and research literature pertaining to the credit union industry.

## **Aims and objectives of Fiji Nursing & Associates Credit Union**

The main aim of FNACU is to assist and educate its members to take better control of their financial, economic and social situation to improve their socio-economic status. Objectives include:

- promoting thriftiness amongst members;
- receiving the savings of members and

- making loans to members exclusively for provident or productive purposes.

The main aim of FNACU is to encourage amongst its members regular saving, wise borrowing and prompt repayment of loans. Every member is given the opportunity to decide the amount to be deducted from their salary for credit union purposes. Currently, members contribute between \$5 and \$100 per fortnight. Part of these deductions is debited to repay the loan and the balance is taken as their shares in the credit union.

There are 25 branch offices of FNACU throughout Fiji. By the end of 2004, membership increased to 1,300 members, which is 75% of the total nursing establishment in Fiji. New graduates from Fiji School of Nursing are encouraged to join. Loans of up to \$300 are granted immediately as emergency loans to those members posted to rural areas. Other new members have to accrue their contributions for three months before being eligible for a loan. A maximum unsecured loan of \$700 is permissible for the following expenses:

- death
- medical
- domestic
- educational
- birthday and wedding
- travel and car
- overdue bill payments
- farming and
- building repairs.

These loans have to be approved by at least three members of the credit committee. The credit committee is composed of four nurses working part-time, on weekends, day-offs and at lunch times. A number of considerations taken into account before approving loans are:

- the size of loan;
- the reasons for the loan to ascertain whether the criteria are met;
- the ability to repay the loan and
- the general background of applicant to ascertain whether they could source other avenues first such as a nurse given priority if she was the sole breadwinner in the family.

These loans are to assist members in times of need and to help pay for school or boarding fees, household appliances and to overcome other financial difficulties. Interest is paid to members at the rate of four to six percent of their shares and this had been paid out in cash.

There are a number of other benefits available to members of FNACU besides loans and these include death benefits, *reguregu* (paid on member's death), overseas medical treatment assistance scheme, retirement benefits, death of next of kin, education assistance, staff and committee members' development: the welfare fund, interest of between 4-6% of share capital was distributed to members from 1977 to 1989 and entertainment allowance. Since loans were usually granted based on the amount of shares with the FNACU it was not possible to withdraw from the share account without withdrawing from the credit union.

## **Management**

A board of directors together with credit and supervisory committees manage the FNACU. There are six members of the board of directors. The credit committee consists of four members and supervisory committee consists of three. Policy issues are discussed at the board of directors meeting. The credit committee is responsible for scrutinising and approving loans and the supervisory committee sees that proper procedures are followed in the day to day running of the credit union. The staff members carry out the daily operations of the credit union.

### **Training and development**

The Bergengren Credit Union Training School in Suva conducts seminars and short courses in the evenings on financial aspects of running a business. It also covers other important topics like credit union philosophies, leadership qualities, credit union management, family finance, general counselling, public speaking, credit union laws and structure of unions. The administrator of FNACU regularly attended the seminars and committee members were permitted to attend the evening courses to upgrade their skills in financial management. The administrator was able to prepare the financial statements and recommended basic accounting as a good basis for financial management of the organisation. Professor Julian Jose Avila, the consultant at Bergengren Credit Union Training School especially groomed the administrator in effective management by sharing knowledge and expertise on all aspects of credit union matters. Professional development and staff training was given much emphasis by the FNACU.

Staff members are self motivated to develop their skills. A typist attended the Fiji Institute of Technology in her own time to upgrade her typing skills. Training sessions were also conducted on the weekends by the staff of Bergengren Credit Union Training School on preparation of financial reports, roles of committees and legal aspects of loan recovery. These relevant and job related training sessions were found to be very beneficial.

The administrator reported that she attended the World Council of Credit Unions International conference at Wisconsin, USA in June 1991. The chairperson of FNACU and 9 members from the various divisions such as Western, Northern, Eastern, Central and others attended the International Credit Union Forum of European and South Pacific countries in Brisbane in June 2003. The President of FNACU stated that the recommendations from the International Credit Union Forum of European and South Pacific countries as applicable to FNACU were that the FNACU office staff should also be included in the strategic planning of the organisation and members of the board should represent all age groups. This may mean that if there are a lot of younger members then there should be representatives from that age group in the board.

### **CUFA'S development workshop**

The president and a member from the credit committee attended the workshop at Lake Hume Resort in New South Wales, Australia in March 2004. The members returned with relevant knowledge of credit union issues which they believe will greatly assist in further development of FNACU. According to the administrator, participation at such conferences has not only boosted their own professional development but also that of the chairperson and members of the FNACU. It has provided exposure and sharing of information with similar people from other countries.

The policy amendment committee reviewed the education allowance to enable more members to benefit from this fund. Consequently, the training and development allocation was increased from \$3,730 in 2001 to \$12,900 in 2004. Upon review of the benefits of this allocation, it was found that the members felt that their needs were being met.

### **Marketing and promotion**

There was significant income from selling merchandise such as umbrellas and blazers sporting an FNACU logo. This increased their income by \$13,423 during the period 2001-2004 (FNACU Annual Report, 2004). Other items that have been promoted previously included trench coats, capes and vests. Sale of long pants was being negotiated with the Ministry of Health. As a result of merchandise sales, at the time of interview, the FNACU was in a sound situation and practised good financial management techniques.

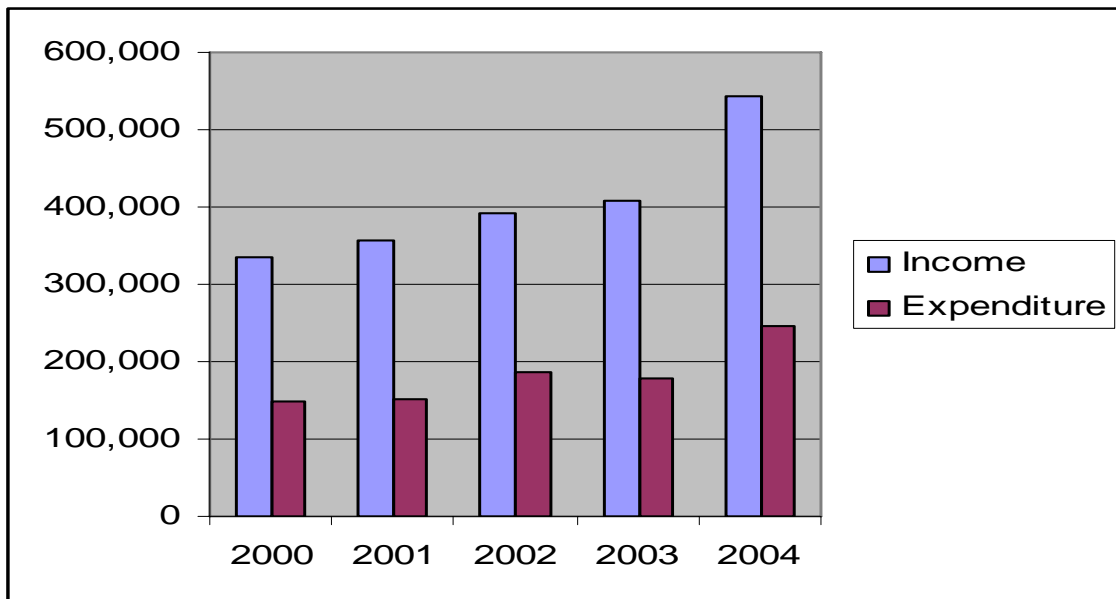
It was felt by the interviewees that the Fiji Credit Union League and Bergengren Credit Union Training School provided moral support and assistance, allowing the staff of the FNACU to succeed. All the committee members received financial management training through Bergengren Credit Union

Training School. Committee members rotated every two years allowing a total of more than 78 members to receive training.

**Credit union finance**

The financial situation of Fiji Nursing & Associates Credit Union is depicted in Figures 1-3 below. Figure 1 demonstrates that relative to expenditure, income has steadily grown across the period 2000-2004.

**Figure 1: Graph showing the income and expense of Fiji Nursing & Associates Credit Union**

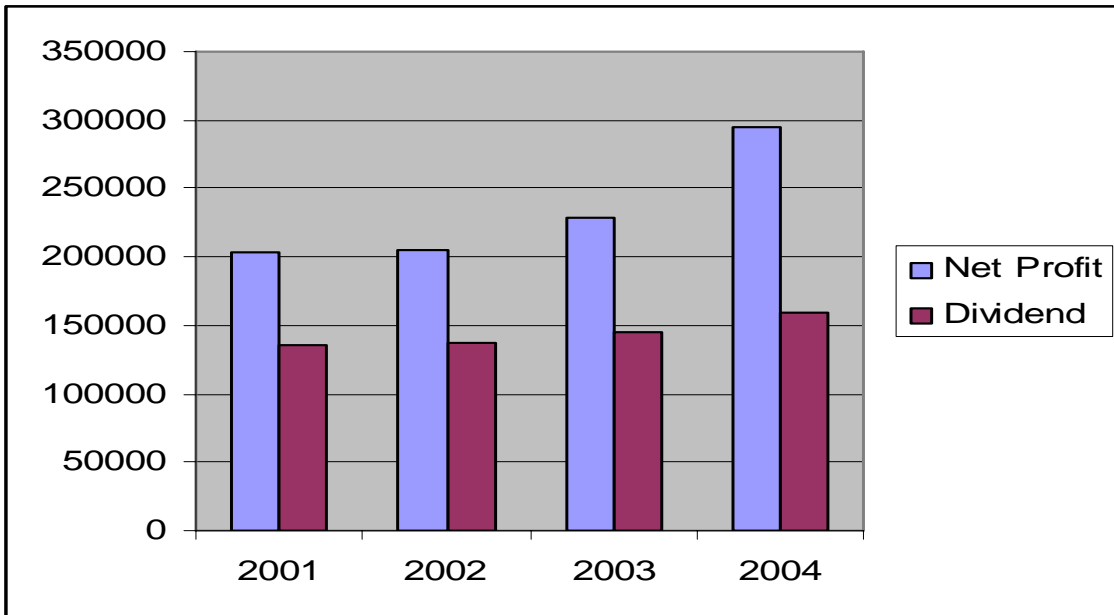


Source: 2000-2004 Financial Statements of Fiji Nursing & Associates Credit Union

The organisation’s net profit increased in 2004 by 29 percent to \$66,999 from the previous year. This is illustrated in Figure 2. Members’ shares increased to \$2,792,634 in 2004; an increase of 7.3%. Dividends at the rate of 6% were paid from 2001-2004.

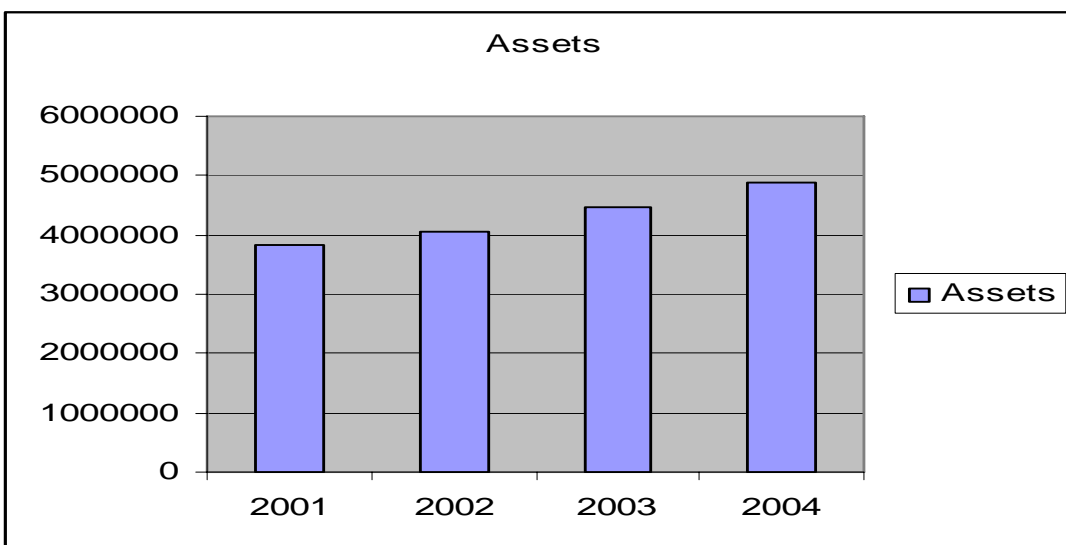
Finally, Figure 3 shows that FNACU is in a very healthy situation with assets close to \$5 million dollars. The FNACU has shown phenomenal growth in comparison with other cooperatives in Fiji. In a small country like Fiji, this is outstanding performance.

**Figure 2: Graph showing the net profit and dividend of Fiji Nursing & Associates Credit Union**



Source: 2000-2004 Financial Statements of Fiji Nursing & Associates Credit Union

Figure 3: Graph showing the assets of Fiji Nursing & Associates Credit Union from 2001-2004



Source: 2000-2004 Financial Statements of Fiji Nursing & Associates Credit Union

**Review of the Credit Union Act**

Innovation in governance by FNACU has been through changes in the *Credit Union Act*. The executives and management of FNACU attended several meetings with the Savings and Credit Union League to review the *Credit Union Act* to make it more relevant to the current situation in Fiji. The Credit Union League and the Ministry of Justice completed a national consultation workshop to review the Act before presentation to Parliament for approval.

The collaboration between these bodies is likely a significant factor in the success of the implementation of the Act.

**Amendment of FNACU policy**

In turn the FNACU reviewed their education policy and consequently, there has been a marked increase in education assistance provided. The total amount of assistance provided during 2004 increased drastically from \$1,913 in 2003 to \$12,900 benefiting 75 members.

Currently, the supplementary by-laws of FNACU lay down how their business will be conducted. There is an allocation for committee allowance whereby each committee member receives \$100 per month for expenses incurred when attending credit union business. Each director who attends the monthly meetings is paid \$25 per meeting as sitting allowance. Every 3 months a \$25 allowance is paid to the members of the board of directors, credit and supervisory committee members who attend the relevant meeting. A sum of \$15 is paid to all committee members attending the Annual General Meeting.

### **Minors and paramedics membership**

The Board of Directors of FNACU through innovation in governance allowed the children and grandchildren of members to become members of FNACU from October 2004. This is not only to encourage savings but also to introduce credit union philosophies and ideas from an early age. Clearly, the recruitment of minors will ensure sustainability of membership in the future.

There has also been discussion regarding expansion of membership to doctors and paramedics as well. Many in these professions are more highly paid than nurses and will contribute to greater diversity and financial participation in the future. The intent to broaden its membership from solely nurses indicates a level of emerging strategy in the organisation.

### **Problems faced by FNACU**

The main problems faced by the FNACU were: low income of members, loan recovery from absconded members and small amount of loan granted. It is relevant to briefly overview these problems.

#### *(a) Low income of members*

The nurses were generally in a low-income bracket and faced difficulties with deductions from such low salaries. Since loans were available from the FNACU, these low-income earners were attracted to join the scheme. Whilst this has boosted membership, greater problems were faced when their loan applications were rejected. This was a major cause of frustration for these members. One of the main reasons for rejecting loans was when members' previous loans remained outstanding and when applicants faced hardship in repaying the loan. The total unsecured loans of \$700 were to be repaid within two years. According to the administrator of the FNACU the period of two years was not considered sufficient time by some members.

#### *(b) Loan recovery from absconded members*

Some 30 members resigned or migrated without settling their loans. As a result a sum of \$20,000 was shown as outstanding loans. Initially letters were written to the defaulters to negotiate repayments. A sum of \$4,000 was collected during the year. There was a reserve fund to pay off the loan and the defaulters were being pursued. Legal action through the small claims tribunal and the civil courts had to be taken against those members who were employed outside the Ministry of Health to recover the outstanding sums.

#### *(c) Loan granted was too small*

The members did not regard the maximum unsecured loan of \$700 granted as helpful because it was too small to provide them with the assistance needed.

Despite the problems, which are largely shared with others in the credit union industry, there are many factors that contributed to the success of the FNACU.

### **Salary increase**

The Fiji Nursing Association secured, through arbitration, a 15% salary increase from 15 June 2000 and a further 2% increase for all Fiji civil servants was awarded from 30 June 2000. Therefore the nurses received a total of 17% increase for all nursing grades (Fiji Nurses Make Gains, but Fear Further Setbacks, 2006). The salary increases have the potential for nurses to secure greater loans and to more actively financially participate in the FNACU.

### **Profitability**

The credit union enterprise is ideally suited for practising cooperative concepts. After the initial membership drive, a steady source of income is established from members' contributions and interest on loans to members generates a further source of income. Furthermore, there are few bad debts in credit unions when well managed, as most of the payments are deducted at source from payroll at the workplace.

### **Benefits received from FNACU**

Clearly, some members' standard of living improved through access to loans from FNACU. This assisted members to build and renovate homes, send their children to schools, buy computers and other household goods.

### **Homogeneity**

The homogeneity of their members no doubt played a significant role in the success of the organisation. Their membership has, according to one administrator, an above average work ethic, stability and a high moral code as the nurses undergo solid training. Further, the members were more educated and understood the benefits of their membership.

### **Conclusion**

The case study revealed that the FNACU was successful in Fiji because it was easier to manage due to the common bond in the workplace; a more educated membership which understood the benefits; good debt control as credit union deductions were made at source; meticulously followed financial management procedures; and the members were clear about their vision, mission and core values. Further, all committee members received financial management training through Bergengren Credit Union Training School. The members rotated every two years allowing an increasing number of members to receive training. As a result the FNACU practised good management techniques and was in a sound financial situation. The Bergengren Credit Union Training School and the Fiji Credit Union League provided assistance and moral support allowing the staff of the FNACU to succeed.

The participative review of the Credit Union Act between credit union members, Department of Justice and members of Parliament point to a form of collaborative governance, which in many other nations, would be considered quite innovative. The level of participation goes some way to explaining the successful compliance with the Act.

It was found that there was transparency in management and the members were fully aware of the management and financial status of FNACU. This was recorded in the Annual Reports which were distributed to all members at Annual General Meetings. The cultural value and practice of *reguregu* (gift given at death of member or immediate next of kin) was recognised and well managed. That is, funds were made available in a separate account for this need of members.

Growth of the FNACU is through innovation in governance by strategically expanding membership to paramedical and other medical classifications and through the expansion of minors' membership

instead of just serving the interests of nurses. Combined with the marked increase in Education allowance to members, the FNACU provides a case study in best practice for their industry.

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