

# ONE MEMBER- ONE VOTE IN ACTION

## MACEDONIA MEMBERS TAKE BACK CONTROL



What happens when governance goes awry? When board members' personal interests supersede the good of the organization? Memories of debacles such as Enron, WorldCom and Tyco still linger in the minds of many international business professionals, stockholders and employees.

For FULM Savings House in Macedonia, poor governance by its founding organization resulted in a resounding victory for the members and the credit union principles of "one member, one vote."

FULM Savings House had experienced positive growth since opening in 1999, accumulating US\$4.2 million in assets. But to continue serving its 5,500 members, FULM needed to comply with changes in Macedonia banking law and meet the European Union "harmonization" requirements or obtain an exemption that other credit unions in Europe have received. Unfortunately, the path to meeting them was not without its challenges.

The challenges revolved around the lack of good governance by AC FULM, the "holding company" of FULM Savings House. This structure, with AC FULM established as the "owner" of FULM Savings House, came about due to the lack of appropriate credit union legislation following the war. But at a time when the board needed to take the next critical steps to meet these laws and requirements and ensure the long-term

sustainability of FULM Savings House, it appeared to make decisions based on some of the board members' personal agendas.

### The Situation Unfolds

During the second quarter of 2004, FULM Savings House, National Bank of the Republic of Macedonia and World Council of Credit Unions (which has been working to develop credit unions in Macedonia since 1995) began meeting to discuss the necessary steps to meet the EU requirements. These requirements involve compliance with concise banking laws and regulations, such as rules regarding licensing structure, transparency and the connection between capitalization and the products and services financial institutions are allowed to offer.

Three basic issues surfaced in these discussions that, at a minimum, FULM Savings House needed to address before moving forward on the EU requirements:

- 1) Meet capitalization requirement of \$1 million euros,
- 2) Cease operating under its current license and re-license as a different type of institution (a credit union or a savings bank), and
- 3) Have AC FULM, the founder, relinquish ownership of FULM Savings House.

If these requirements were not met, FULM Savings House would have to merge or liquidate, and all remain-



ing institutional capital (after paying all liabilities) would become the property of AC FULM. Subsequently, World Council wrote a proposal to United States Aid for International Development (USAID), requesting additional funds to ensure FULM Savings House could meet the capitalization requirements and remain open for its members. For more than a decade, USAID has been instrumental in the growth of the credit union

# пуги за Лугето на Македонија



One of six branch offices of FULM Savings House in Macedonia.

movement in Macedonia, investing more than US\$400 million to support initiatives to accelerate economic growth, develop democratic institutions and educate citizens for a modern economy.

In June 2005, USAID approved a grant of US\$450,000. As with any World Council project, an agreement was drawn up, stating the obligations of the recipient (AC FULM),

the user (FULM Savings House) and World Council. Within this particular agreement, Article 2 stated that AC FULM would agree to meet any new legislation requiring the relicensing of savings houses and that all institutional capital would remain with FULM Savings House, not AC FULM. But by the spring of 2005—six months later—the AC FULM board of directors still had not signed the agreement, due to Article 2 #9. As a

result, the USAID grant money had not been transferred. It appeared that some of the AC FULM board members were making decisions for the potential benefit of the board itself, and not for the benefit of the seven-year-old financial institution. Anyone who attempted to oppose the board as it tried to stop the project was removed. For example, the board illegally discharged two managing directors who tried to stand up to the board and replaced them with AC FULM board members. Another indicator of the lack of good governance was the continued absence of accurate minutes from the AC FULM board meetings—which, had they been published, would have been proof of the board's violations of its own bylaws.

AC FULM's board actions to block the project and the grant funding were also having negative effects on FULM's operations. For example, Macedonia legislation requires savings houses to comply with a savings-to-capital ratio of 2:1, which means for every two denars saved, one denar must be reserved as capital. Since FULM had reached the maximum level in member savings, the financial institution had to turn members away who wanted to make deposits into their personal savings accounts. The financial impact was that FULM Savings House was unable to mobilize savings of US\$900,000 or make loans of US\$1.35 million to members. FULM also lost revenue from the interest income on these loans. Finally, FULM's reputation was at risk with members, international donors and the Central Bank of the Republic of Macedonia, which was on alert for a public run on FULM Savings House due to increasing member awareness of the situation.

“At this time, our small staff—20 employees—put in a lot of overtime,” said Eleonora Zgonjanin Petrovic, chief executive officer, FULM Savings House. “We were getting questions from members, and we wanted to make sure people didn't panic. We wanted them to understand there was no problem with the institution

itself, just a few individuals with AC FULM. They needed reassurance that FULM Savings House was safe and sound and would continue lending and taking deposits.”

## Members Battle for Democracy

To inform members of their rights, the governance misconduct and the intent of some of the AC FULM board of directors to close FULM Savings House and retain net assets, a grassroots campaign was initiated that included meetings at each FULM Savings House branch location. Three days before FULM's annual general assembly meeting, on May 28, 2006, World Council also

### Good Governance

Good governance, which is essential to the safe and sound operations of a credit union, stems from clearly defined roles and responsibilities of the board of directors, committees and senior managers. It also embraces codes of conduct which directors and staff at every level of the institution agree to and respect in the completion of their tasks. Sound bylaws and policies seek to avoid conflicts of interest and provide mechanisms for dispute resolution when they do arise. While many factors contribute to the governance of an institution, good governance begins and ends with the board. It's governance that sets the tone of the credit union, and it's why members need to be informed of their elected credit union leaders' actions.



*The five people elected by the membership to run the Annual General Assembly Meeting instead of the group set up by the AC FULM managing board were: at the microphone, Nikola Oggenovski, president of the supervisory committee, and seated from left to right, Kiro Salvani, Ljube Bojkovski (chair president for the assembly), Veselinco Spasevski and—recording minutes from the assembly meeting—Gorgi Hristovski.*



*Because the very existence of FULM Savings House was at stake, members from regions all over Macedonia, as well as representatives from USAID and World Council of Credit Unions attended the annual general meeting.*

*“The AGM was one day, but the result will have an impact for years.”*

organized a workshop so the member delegates would fully understand what was happening.

“Delegates were outraged when they realized how AC FULM had blocked FULM Savings House from serving its membership,” said Martha Ninichuck, former WOCCU-Macedonia project director.

“These meetings helped our members understand how difficult the situation was and that they could retake control of their institution by exercising their democratic right to vote,” added Stevo Androvic, current president of AC FULM, formerly one of the illegally discharged directors from the management board of the FULM Savings House.

At the FULM annual general assembly meeting, member delegates were well prepared. First, delegates demanded to make nominations from the floor for the assembly committee, which has the task of overseeing the meeting to ensure that bylaw and assembly protocol is met. In previous sessions, the AC FULM board appointed their personal representatives. The delegates held firm, electing the nominated representatives from the floor. Then the AC FULM board tried to cancel the meeting, and when that didn't work, the board requested an emergency meeting and left the premises. The delegates reacted by stating the board didn't need to be in attendance to continue the assembly since a valid quorum still remained.

In the end, the members' voices were heard: the delegates voted in a new organizational structure, replaced six members of the AC FULM board,

signed the agreement—with Article 2, and reinstated the two FULM Savings House managing directors who were illegally dismissed. The member delegates had regained control of their financial institution, clearly demonstrating democracy in action. The democratic process had been followed, sending a clear message to future elected leaders that they are accountable to the member owners.

“After the AGM, there was such a feeling of happiness among the staff and members when everyone realized that they were the financial institution, not the board only,” said Androvic. “It also showed that success is the result of a lot of people working together, and the credit union structure is functional. This was a great message to the regulators, auditors and central bank—members are not money-driven, but will work together to do the right thing.”

“The members are very proud of themselves for helping the institution,” Zgonjanin Petrovic added. “Our members made history, and they've gone back to their communities to tell what they did. The AGM was one day, but the result will have an impact for years.”

And, the confidence in FULM has soared. “What is most important is that members believe in their organization,” explained Zgonjanin Petrovic. “They know that democracy works.”



—by Caryn Vesperman  
Marketing Manager, WOCCU

## REGULATORS ROUNDTABLE



Thirty-three regulators from 15 countries around the world gathered a day before the World Conference to discuss regulatory issues.

## HONOREE



John Hume received the honorary World Council Distinguished Service Award during the World Credit Union Conference in Dublin, Ireland.

## WYCUP



The 2006 World Council of Credit Unions Young Credit Union Peoples Program Scholarship winners: l-r: Darcy Mykytyshyn (Canada), Shoba Gunasekaran (Singapore), Anne-Marie Coffey (Ireland), Alison Carr (United States) and Tom Atkins (Canada).