

## WHAT IS THE FUTURE FOR FINANCIAL COOPERATIVES?

Posted by Ahmad Jazayeri in Devfinance on Monday 8 August, 2005

*Financial Cooperatives for the New Millennium: A Chronographic study of the Indian Financial Cooperatives and the Desjardins Movement, M.S. Sriram, 1999*

The Rural Finance Learning Centre ([www.ruralfinance.org](http://www.ruralfinance.org)) has recently posted the above paper by M.S. Sriram (Indian Institute of Management) in its *resources* section under the heading *Policy Making / Cooperative sector*. The paper compares the development of Caisses Desjardins in Quebec(Canada) and the Indian cooperatives during the 20<sup>th</sup> Century and attempts to draw lessons from the past.

His main historical conclusion is that Caisses Desjardins developed successfully with no help from the state except an enabling legislation while the Indian coops failed because of a top-down approach with the state meddling in their affairs through disabling legislation and the creation of a dependence mentality. His strategy for the New Millennium Indian Coops is to emphasize the Small is Beautiful neighborhood approach ("members should play the pivotal role not technology"), depend entirely on local resources, keep the state away for all intent and purposes except for the enabling legislation - this is said to be the most significant lesson from the West. Technology, ATMs, and mergers are said to be for the private corporate sector and not for the cooperatives. The coops should act to increase local bargaining power and outsource only for access to more complex savings and insurance services but not for loans. Desjardins's complex, technologically advanced, centralized and interlinked corporate structure is said to be the wrong way forward for the Indian cooperatives ("We have tried with a structure similar to Desjardins enough"). He is optimistic about the recent developments especially in Andhra Pradesh because of their enabling legislation and the SHGs.

### Comments:

I cannot share Sriram's conclusions on history and strategy. He has overlooked important internal tensions within the formative years of Caisses Desjardins. He has also overlooked a more complex role of the state that was more than just "enabling legislation". His strategy for future direction for savings and credit cooperatives in India departs from the lessons of history that he himself has described.

Desjardins's early history (prior to 1945) is described in a book by R. Rudin – "In Whose Interest?" published in 1990. He describes the tension during the 1900 - 1945 period between two opposing tendencies, i.e. those who wanted to keep the Caisses autonomous and local (under the leadership of Messrs. Poirier and Guerin), as Sriram is advocating for the future of the Indian Cooperatives, and those who wanted to modernize and rationalize through centralization (under the leadership of M. Cyrille Vaillancourt - who managed the Provincial Federation). After a long and hard struggle that lasted decades, the centralizers won because of economic necessity and in order to survive in a highly competitive market. Their victory also reflected the changing society of Quebec that moved out of traditional and conservative values to more open and liberal values leading to its Quiet Revolution in the 1960s. This was also a political struggle between the early Quebec Nationalists who were more in favour of autonomous and independent Caisses and the Liberals who were the outward looking modernizers with a modern corporate mentality. The continued existence of the second-level regional federations that are practically unnecessary and emerged as safeguards against the centralization of the provincial federation is a witness to the persistence of the entrenched local interests that continue to this day.

Caisses Desjardins's history actually shows that the mergers and centralization of services is not a strategic choice but a strategic necessity in a highly competitive and changing global environment. Desjardins's history also shows that credit unions reflect the social and political forces in the society and cannot be concocted from an abstract or pure formula. The book also takes the position that the early Caisses Desjardins benefited mostly the wealthier members of the community and were not pro-poor because of high membership fees and emphasis on dividends which kept the interest rate high and the poor only joined in large numbers after WWII when they could afford it.

Regarding the role of the State, the enabling legislation did not happen automatically and was a long and hard struggle. The federal government refused to provide a legal framework for the Caisses and the founder Alphonse Desjardins had to be satisfied with only provincial-level legislation in 1906. This legislation, however, lacked effective safeguards and did not provide for professional inspection of the Caisses - audit was seen as the sole responsibility of the supervision committee of each Caisse. By 1932, following many bank collapses and the onset of depression, external inspection had become a necessity and the leaders agreed to a legally mandated external inspection by the provincial federation. In exchange the federation would receive an annual grant of \$ 20,000 (a large sum in 1932!) later raised to \$ 50,000 from the provincial government to finance their supervision activity. This is more than just an enabling legislation referred to by Sriram. The mistrust of the state was also a mentality that prevailed in the earlier years while later the Caisses were used as in a number of state sponsored social programs such as subsidized credit to fishermen, support to the colonists in northern Quebec, and for rural credit.

To advocate for stand-alone self-reliant neighborhood cooperatives in today's competitive financial markets is a bit like wanting to cross the Atlantic on a kayak. You'll probably drown! In reference to a country like Uganda or Tanzania, the problem is that there are too many non-functional "neighborhood" cooperatives that don't seem to be going anywhere except South. The lessons of Desjardins in terms of creating a centralized operating system, mergers, consolidation, and federation would probably be the only way out. I would argue that the same holds for India and most other Asian countries. The problem is that even WOCCU seems to nowadays emphasize stand-alone cooperatives with much less emphasis on mergers, central financing facilities, and the creation of a united federation. Perhaps the stand-alone approach is perceived to be a low risk strategy but it is also a low yield strategy. What credit unions and savings and credit cooperatives need is a strategy that can cope with their growing resource requirements and strategic competitiveness to alleviate poverty in a sustainable way and not just preach values inherited from a conservative and isolationist clergy mentality of late 19<sup>th</sup> century Germany or Quebec in the early 20<sup>th</sup> century.

[ahmad.jazayeri@fsa-international.com](mailto:ahmad.jazayeri@fsa-international.com)