

Credit Unions in the New Millennium: The Regional and Rural Economic Development Option

Paper to be Delivered by the Hon. Dr. Race Mathews at the Credit Union Historical Co-operative Convention Dinner, Albury-Wodonga, Friday, 20 October, 2000

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Pioneers

It is appropriate at the opening of a Credit Union Historical Co-operative Convention to recall and honour those before us, whose vision, courage and dedication gave rise to Australia's credit unions as we know them today, and the modern credit union movement. It is appropriate to emphasise that those who we honour are not the leaders of the movement alone - pioneers such for example as a Kevin Yates, a Dermot Ryan, a Stan Arneil or a Father John Gallagher. We honour also the many tens of thousands who have served the movement as directors, as volunteers of every kind, as paid staff and as members whose contribution was simply to spread the word about credit unions and credit unionism among their neighbours, friends and workmates.¹

It is appropriate also to note the gradual passing of the founder generation of the movement - to note the many familiar faces from past conventions who are no longer with us, but whose memory the movement will forever preserve and treasure. It is appropriate not least to give thanks for the Credit Union Historical Co-operative and all those who work so selflessly within it. Thanks to their untiring efforts, the records and recollections of the movement can be preserved as a source of wisdom and guidance in the years ahead.

It is appropriate finally to acknowledge and honour the presence among us tonight of Tom Kelly, whose on-going role as secretary of the Credit Union Historical Co-operative culminates a lifetime of service to credit unions, and an unswerving dedication to the ideals and values to which credit unionism so triumphantly gives expression. Tom Kelly is truly a national credit union treasure.

¹ See Lewis G. 1996, *People Before Profit: The Credit Union Movement in Australia*, Kent Town, South Australia, The Wakefield Press.

Hopes

As always, action speaks more eloquently than words. We honour most effectively those who have gone before us in the movement by fulfilling their hopes and dreams. What then would their hopes and dreams for the future have been? Would those before us have been happy for credit unions to remain, as in the past, providers largely of personal loans and housing mortgages - to shelter within the comfort zone of familiar practices, and so drift inevitably into the hands of predatory demutualisers, or become takeover targets for the major banks?²

Or would they not rather wish credit unions to respond as effectively to the new needs of a new century as to the needs of forty and more years ago? Would they not wish that the same vision and dedication should be devoted to re-inventing Australia's credit unions today as was required for bringing about their inception forty and more years ago? Would they not want a new era for credit unions and credit unionism to open with the opening of a new century and a new millennium?

New Directions

If so, there can be little room for doubt or disagreement about the new directions which credit unions should now be adopting. Just as credit unions were able forty and more years ago to set about the long defeat of the rapacious hire purchase industry of the day, so today their task is to assist communities to retain their identities in the face of pressures nudging us towards global uniformity. It is to enable communities to retain control of their local economies, to bring about local and regional economic development and thereby to ensure that there are jobs for all. Not least, it is to ensure that communities in rural and regional Australia are not denuded of the new generations of their sons and daughters on whom their survival so plainly depends.

Nor is there any lack of examples of how these objectives can be achieved. The great Desjardins credit union federation in Canada and the still greater complex of manufacturing, retail, financial, service and support co-operatives at Mondragon in the Basque region of Spain - now the Mondragon Co-operative Corporation MCC) - triumphantly exemplify credit union driven regional economic development.³

Thanks largely to a triumphantly innovative credit union - the Caja Laboral Popular - the Mondragon co-operatives have developed from a standing start in the middle 1950s to what is now the largest business group in the Basque region of Spain and the ninth largest business group, with jobs for 42,500 workers and annual sales of more than \$A12 billion. The slogan which steered the Mondragon credit union to its success was "savings or suitcases". Our task is not to seek mindlessly to replicate a Mondragon or a Desjardins in

² See Mathews R. 1999, "NRMA Insurance Demutualisation" in *Journal of Australian Political Economy*, Number 44, December, 1999, p. 113, and Mathews R. 2000, "Looting the Mutuals: The Ethics and Economics of Demutualisation" in *Dissent*, Number 3, Spring 2000, p. 39.

³ See Appendix. For a more detailed account of Mondragon, see, for example, Mathews R. 1999, *Jobs of Our Own: Building a Stakeholder Society*, Sydney, Pluto Press (Australia).

Australia, but rather to learn from their example and apply what is best about both of them to our distinctive needs and circumstances.

How then can this be made to happen? The answer lies with both credit unions and with the governments which determine the legislative and regulatory frameworks in which the credit unions are required to operate. Credit unions which are prepared to help themselves can fairly argue that they have a right to ask of governments that they should not be held back in their efforts by needlessly onerous statutory and regulatory constraints.

The Minimum Change Option

What credit unions can do to help themselves can be summarised broadly as involving four options. These are a do-nothing option - untenable because effectively it betrays all that credit unions and credit unionism stand for and thereby delivers them into the hands of the demutualisers - together with options respectively for minimum, intermediate and maximum change. None of these options require that credit unions should in any sense diminish their current role as consumer and housing loan providers. Each successive option retains the functions of those before it.

A minimum change option for credit unions would involve less embracing new policies than acting on one which has already been adopted, but not so far put into effect. Australia's peak credit union body - Credit Union Services Corporation (Australia Ltd. (CUSCAL) - has for some years acknowledged that there needs to be a loan syndication mechanism whereby credit unions can participate in the larger commercial loans which they are too small to fund individually. In this way, credit unions would be enabled to fully pull their weight in bringing about local and regional economic development - could adopt and be seen to adopt a strategic profile in the communities and environments in which they operate.

What is now required in order for all this to happen is for CUSCAL to employ specialist staff with skills - including risk evaluation skills - such as would enable them to properly assess and document commercial loans. Under a loan syndication program, the lead credit union would do the preliminary analysis of the lending proposition, and then submit the documentation to CUSCAL for approval. The lead credit union would remain the interface with CUSCAL, but might itself commit to no more than - say - 10% of the amount approved.

The rest of the loan would be offered by CUSCAL to other participating credit unions, so that the loan might ultimately be funded by nine or ten credit unions. A syndicated loan would have an allocated security, so that each credit union would own that proportion of the asset again which the loan was raised. In other words, if the overall loan was 10% equity provided by the borrower and 90% borrowed, each of the securities would retain the same ratio. Loans could in some instances be syndicated more widely, so as to involve, in addition to credit unions, other funding sources such as regional development authorities, pooled development funds and - perhaps - industry superannuation funds.

Syndicated loans are a regularly used mechanism within the Australian financial community, and most larger loans are funded through syndication. CUSCAL would simply be taking a sound concept and making it available for credit unions for loans of a much lesser magnitude, between - say - \$10 million and \$50 million. Nonetheless, the facility would be profitable for credit unions and enable them to retain the loyalty of the members to whose most pressing current needs they would be seen to be responding.⁴

The Intermediate Change Option.

An intermediate change option for credit unions would be for CUSCAL to supplement an in-house facility for syndicated commercial lending, through the establishment of a subsidiary on the model of Investissement Desjardins (ID) in Canada - the regional development arm of the great Desjardins credit unions federation. The purpose of a CUSCAL subsidiary along these lines would be to enable credit unions to participate in the provision of equity as well as debt finance, and also to more effectively partner the regional development funds and pooled development funds which so largely focus on equity. Investissement Desjardins has already established no fewer than five of ten projected regional development funds of its own. There are also partnerships between individual Desjardins credit unions and federations and what is in all some 284 community investment funds currently operating in Québec.

The Maximum Change Option.

A maximum change option for credit unions would be one whereby, in addition to the functions already discussed, there is a specific commitment - as in Mondragon - to helping businesses which adopt mutualist or employee-ownership structures, with corresponding reductions in their agency costs and increases in their competitive advantage. In this option, the CUSCAL subsidiary would have incubator and business support functions akin to those of Empresarial Division of the Mondragon credit union, the Caja Laboral Popular, in the Mark I phase of Mondragon.⁵ There would be specific encouragement for co-operation between businesses along Mondragon lines, and - perhaps - secondary support entities such as in Mondragon would be established.

Alternatively, support services on the model of those in the Emilia Romagna region of Italy might be preferred. The point here is that Australian credit unions are not limited to any one model for involving themselves in regional economic development. The accumulated experience of credit unions and other mutuals, over time and on a worldwide basis, is crying out for us to avail ourselves of it.

Lightening the Regulatory Burden

⁴ See letter to the author 24 March 1998, from the General Manager (Subsidiary Operations and Third Party Relationships) of CUSCAL, Mr. R.J. Fowler, whose assistance I gratefully acknowledge.

⁵ See Mathews 1999, Op. Cit., Chapter 10.

What is needed from governments is, in the first instance, a recognition - preferably explicit - that credit unions and other mutualist bodies such as building societies, friendly societies and co-operatives are about enabling ordinary people and communities to engage in self-help, and thereby are entitled to special consideration. This means, among other things, acknowledging and eliminating current statutory and bureaucratic obstacles to the establishment and expansion of credit unions and other mutualist bodies.

For example, panic consequent on the collapse of a bogus mutual - the so-called Pyramid Building Society - in the early 1990s prompted the mainly Labor governments of the day to enact financial institutions legislation which has for all practical purposes blocked the further development of financial mutuals. Subsequent to the enactment of the financial institutions legislation, all but three of innumerable attempts to create new credit unions have been unsuccessful.

While it would be desirable for credit unions to have restored to them favourable tax treatment such as the Whitlam Labor government awarded to them in the 1970s in recognition of their not-for-profit status and contribution to community development and well-being - and such also as has more recently been defended so aggressively in the United States by the Clinton/Gore Administration⁶ - the more pressing requirement, in the first instance, is for government to get out of the way of credit unions, get off their backs and allow them to carry on their work on behalf of the community with the least possible interference.

This means getting rid as much as possible of the statutory and regulatory requirements which are blocking the establishment of new credit unions and cramping the development of current credit unions or inhibiting them from striking out in new directions in response to new needs. It involves, among other things, recognising that one size does not fit all, and smaller credit unions differ in their regulatory requirements from larger ones. It involves striking off such legislative and regulatory shackles as might impede or discourage Australia's credit unions from involving themselves in local and regional economic development and job creation along lines similar to their Desjardins and Mondragon counterparts.

Protection Against Demutualisation

Secondly, legislation is needed urgently in order to protect credit unions against demutualisation, as much from within - as witness the Sunstate Credit Union or NRMA Insurance experiences - as by external predators. Ideally, legislation would be expressive of the fundamental characteristic of all mutuals including credit unions: that, as has been seen, each generation of their members adds to their assets in the expectation that they will be retained for the benefit of others still to come - that current members are trustees in effect for the intentions of the dead and the inheritance of the unborn.

⁶ D'Amours N.E. 2000, "Credit Unions, Taxation and Competition" Address to Government Affairs Conference of the US National Credit Union Association, 28 February, 2000. In *Credit Union Chronicle*, Vol. 3, Issue 11, Autumn 2000. p. 2.

At the very least, there would be legislation such as has been enacted recently in Canada, requiring that directors, managers and staff of demutualising mutual assurance societies should not receive benefits other than those available to all policy-holders. Ideally, a definition of benefits for the purposes of the legislation would include overall remuneration increases (including stock option allocations) accruing to directors and senior managers for - say - a five-year period following any demutualisation.

Alternatively, legislation could be enacted on the Spanish model, which requires that, where mutuals demutualise, the surplus of their assets over their liabilities must be paid into a revolving fund for expanding existing current mutuals and creating new ones. Meanwhile, pending proper statutory safeguards, credit unions could consider rule changes to guard themselves against demutualisation, such as have been adopted by some building societies in Britain. These societies now require, as a condition of admission, an undertaking from new members that any windfall gains to which they may become entitled consequent on a demutualisation will be paid to an agreed charity.⁷

An Open Public Inquiry

Third, and finally, there should be an open public inquiry into mutuals, including credit unions, by a select or standing committee of the national parliament, along the lines of the recent inquiry by the House of Representatives Standing Committee on Employment, Education and Workplace Relations into employee share ownership.⁸ Like royal commissions and judicial inquiries, parliamentary inquiries are a useful means of obtaining information which would otherwise be unavailable, of drawing to public attention facts which would otherwise be neglected, and of reconciling points of view which otherwise would remain opposed. An inquiry would serve among other things to alert public opinion not only to the capacity of mutuals and credit unions to enhance economic productivity and community well-being, but to the high and often hidden costs of demutualisation.

Currently, in Britain, a Co-operatives Commission established by the co-operative movement with support from Tony Blair's Labour government is reviewing all aspects of consumer co-operatives and co-operation. The Commission's brief is to:

- (a) Review and measure the success of the Consumer Co-operative in meeting its commercial and social goals.
- (2) Review and make recommendations on the structures for the ownership, control and management of the Consumer Co-operative Movement for the future.
- (3) Review and make recommendations for a structure that will ensure a substantial and continuing contribution by the Co-operative to its wider goals.

⁷ *Financial Times*, 28/3/98.

⁸ House of Representatives Standing Committee on Employment, Education and Workplace Relations 2000, *Shared Endeavours: An Inquiry into Employee Share Ownership in Australia*, Canberra, The Parliament of the Commonwealth of Australia.

(4) Propose a realistic course of action to improve the effectiveness, performance and contribution to society of the Co-operative Movements, with suggested avenues for commercial strategy development.

A statement by Tony Blair on the occasion of the launch of the Commission reads: "The Co-operative Movement represents a vital part of UK business: not publicly, not privately, but co-operatively owned and controlled by its members to ensure that its commercial and community interests go hand in hand. I am pleased to be supporting this Commission. It will identify new opportunities to foster a strong and successful Co-operative Movement for future generations".⁹

Objections

It will be objected by some that Australians are now lacking in the community spirit and sense of shared purpose which made credit unions and other mutualist bodies possible. That the assertion is false is apparent from the Bendigo Bank experience. The Bendigo Bank - a onetime permanent building society - has to date franchised shareholder-owned community banks in conjunction with some twenty-five local communities in Victoria, New South Wales, South Australia and Western Australia, and received inquiries from a further 500 communities. A further twenty-five community banks are expected to follow by 2002.¹⁰ Shareholders in participating communities are required to raise upfront capital - initially \$250,000, but now \$325,000 - and meet branch running costs, and profits are divided between the bank and the community on an agreed basis.

The pity of all this is that the energies which are going into the establishment of community banks are settling for a second best solution. While community banks are better by far than the major banks which are so ruthlessly withdrawing their services from regional and rural Australia and downgrading their responsibilities to other than "high net worth" customers, they are a poor substitute for credit unions. Businesses owned by their customers and those owned by shareholders necessarily differ from one another in key respects.

Compare a credit union or other mutualist business with a conventional shareholder-owned company. In the words of a leading British insurance mutual executive: "There is a difference between a business run for the benefit of policy-holders and a business run for the benefit of shareholders. You put a different person first".¹¹ As Mark Sibree of the leading friendly society, Australian Unity, sees the society's relationship with its members, "We are not in a position to rip them off: there is no purpose. The same people who are our customers turn up at the annual general meeting and vote"¹² It remains to be seen what will become of the community banks when, as seems inevitable, the Bendigo Bank is swallowed up by one or other of the major banks - major banks whose indifference to rural and regional interests and needs have been made so brutally and blatantly apparent.

⁹ Co-operative Commission press release 24/2/00.

¹⁰ *Age*, 8/8/00

¹¹ *Financial Times*, 11/3/98

¹² *Age*, 14/7/99

It will also be objected by some that the capital requirements for regional economic development - for establishing new businesses and expanding existing businesses, and thereby creating local jobs - are already being fully satisfied by financial intermediaries other than credit unions. Once again, the assertion is contradicted by the Bendigo Bank experience. The Bendigo Bank has recently announced the establishment of a \$50 million regional development fund to encourage big superannuation funds to invest in "excellent but cash-strapped regional businesses".

According to a press statement by the bank's managing director, Rob Hunt, "Fund managers simply do not have the charter, the local connections or the appropriate investment to invest regionally". Mr Hunt's statement continues that the bank is constantly in touch with "excellent businesses with proven track records and established markets but which are constrained because their principals have exhausted their own capital and cannot prudently take on more debt".¹³ The diversified portfolio of growing businesses in which Mr Hunt envisages his fund investing includes "agribusiness, technology, environmental, manufacturing, tourism/hospitality, media and business services".¹⁴

Partnerships

The Bendigo Bank has not been alone calling for regional development funds to be locally targeted and inclusive of a range of financial intermediaries including superannuation funds. For example, the recent Investments Albury Wodonga Annual Report for 1999-2000 lists among the agency's projects and achievements for the year the formation of a steering group "to progress the concept of an Albury-Wodonga Superannuation Fund, designed to facilitate re-investments of funds on the Border"¹⁵

It is a measure of the extent to which the relevance of the credit union movement has been allowed to decline, that neither the Bendigo Bank nor Investments Albury Wodonga identify in their statements the potential of credit unions as participants in partnerships for regional economic development. Australian credit unions are paying a heavy price for their failure to take to heart, and vigorously draw to public attention, the example and lessons of their Desjardins and Mondragon counterparts.

Albury Wodonga has for many decades been a symbol of hope for the many Australian who share a passionate commitment to balanced development - who profoundly believe that prosperous rural and regional communities are essential for our national well-being. Disappointed as these hopes may have been at times, they have never been extinguished. It is for credit unions to now pull their weight in transforming the dream into a reality - in ensuring that rural and regional Australians become truly, in the words of that great path-

¹³ *Age*, 26/6/00

¹⁴ "Bendigo Bank launches \$50 regional fund" in *Australian Venture Capital Journal*, July, 2000.

¹⁵ Investments Albury Wodonga 2000, *Annual Report 1999/2000*, Albury, Investments Albury Wodonga, p. 12.

finder of Canadian credit unionism, Father Moses Coady, "Masters of Their Own Destiny" - that they share fully in "the good and abundant life".¹⁶

¹⁶ See Coady M. 1939, *Masters of Their Own Destiny: The Story of the Antigonish Movement of Adult Education Through Economic Co-operation*, New York, Harper & Row (Paperback edition 1980, Antigonish, Nova Scotia, Formac Publishing Company Ltd.) and Mathews, 1999, *Op. Cit.* Chapters 7 & 8.

Appendix

The Desjardins Credit Union Federation and the Mondragon Co-operative Corporation

Desjardins

The Mouvement des Caisses Desjardins began in Lévis in Québec in 1900, at the instigation of Alphonse Desjardins. Desjardins - a committed Catholic and advocate of social Catholicism - was a *Hansard* reporter for the Québec provincial parliament from 1879 to 1891, and later Clerk Reporting of the Canadian parliament in Ottawa between 1892 and 1917.¹⁷ His conscience was aroused by the poverty and unemployment which were driving away large numbers of his fellow citizens to the United States in search of work. He was appalled also by the inability of working people and farmers to borrow at interest rates which were within their means. His original caisse or credit union - La Caisse Populaire De Lévis - was seen by him as "putting the savings of the people at the service of the people".

As in all credit unions, members pooled their savings, and took turns for affordable loans. The first transactions were conducted on 23 January, 1901, at Desjardins' home, which remained the nerve-centre of the movement until his death in 1920, and is now preserved in his memory as a museum by La Société Historique Alphonse-Desjardins. Credit union members, Desjardins believed, would be encouraged to adopt practice thrift and financial responsibility. Christian and humane values would be fostered. Usury would be discouraged. In time, credit unions would form federations, and a great movement would emerge.

Desjardins' dream is now a reality. The movement which bears his name numbers some 1,254 community credit unions ("caisses populaires") and industrial credit unions ("caisses d'economie"), with 5.5 million members and assets totalling \$C76.7 billion. The Desjardins credit unions are now the largest financial intermediary in Québec and the sixth largest in Canada. Their collective market share within Québec totals 41.2% of all farm loans, 38.4% of residential mortgage loans, 31.9% of consumer loans and 21.1% of loans for commercial and industrial purposes.¹⁸

The outstanding commercial success of the Desjardins credit unions reflects their commitment to continuous reinvention - to constantly adapting their objectives and structure in the face of changing needs and circumstances. As the long-serving former president of the Confédération, Claude Béland, has stated in a message for its 1998 Annual Report: "The Mouvement des caisses Desjardins is continuing to re-invent itself in order to remain the

¹⁷ For the contribution of social Catholicism to mutualist thought and practice, see, for example, Mathews 1999, Op. Cit.

¹⁸ Figures from *Le Mouvement des Caisses Desjardins, 1999 Annual Report*. See also letters to the author on 17 February and 1 May 2000, from the Vice-présidence Développement coopératif of La Confédération des caisses populaires and d'economie Desjardins du Québec, M. Guy Cameron, whose assistance I gratefully acknowledge.

preferred financial institution of most Québécois, as well as their natural partner in collective projects at the local, regional and provincial levels".¹⁹

Structurally, Desjardins community credit unions within Québec are grouped at present on a regional basis in 10 federations. There is a separate federation for the industrial credit unions, and three auxiliary federations for credit unions outside Québec. The functions of the federations are to promote the effectiveness, growth and development of their affiliated credit unions, and provide joint services such as communications, technical support, training and human resources management. The federations in their turn comprise La Confédération des caisses populaires et d'économie du Québec.

The Confédération sets objectives for the movement as a whole, after extensive consultation with the credit unions and their members. It is also a service provider for the credit unions and federations, in part through wholly-owned subsidiary companies. For example, credit unions are able to source their credit card and information technology services directly from the Confédération. Direct clearing within the Canadian payments system and at the Bank of Canada is made available through La Caisse Centrale Desjardins du Québec. The Desjardins-Laurentian Financial Corporation has majority holdings in four intermediary companies, with subsidiaries offering general insurance, life assurance, trust and investment management services and corporate financing services. A liquidity and mutual aid fund is operated through Fonds de sécurité Desjardins. A secure delivery service for cash and other valuables is provided indirectly from a Confédération subsidiary, Sécur, as is an automated system of authorisation and payment for pharmaceutical services by a subsidiary of the Desjardins-Laurentian Life Assurance Company (DLLA), Centre d'Autorisation et de Paiement des Services de Santé.

However, be the Mouvement's current structures as comprehensive and sophisticated as they may, they have in no sense ceased to evolve. Nor is the Mouvement now resting on its laurels. On the contrary, further major changes in its structure are to take effect on 1 July, 2001. As from that date, the current regional federations will merge with the Confédération to form a single entity. At the same time, the service functions of the federations will transfer to eighteen regional service centres. Their political functions will transfer to a new regional assembly with a regional council member whose president will become a member of the board of the Confédération. At a grassroots level, mergers are expected to reduce the number of smaller credit unions to around 600.

Additionally, impressive as has been the capacity of the credit unions for structural change, what has been far more impressive is the continuous updating and expansion of their objectives. As the 1998 Annual Report affirms: "Job creation and support are major concerns for Desjardins".²⁰ What was conceived originally by Alphonse Desjardins as a means of combating usury

¹⁹ Le Mouvement des Caisses Desjardins, *1998 Annual Report* p. 3. M. Béland stepped down from the presidency at the end of 1999, and was replaced by M. Alban D'Amours.

²⁰ Ibid, p. 30.

and providing affordable consumer credit for working-class households is now also a driving force for regional and local economic development.

The key elements of the Mouvement's involvement in economic development are plain. The development function is vested in part in a holding company, Investissement Desjardins(ID). ID supports the development of industrial and commercial enterprises and participates actively in Québec's economic growth. It is tasked:

- (a) to support the development of Regional Investment Funds;
- (b) to support high-tech businesses, in industries such as communications, electronics, health care and the environment;
- (c) To assist businesses associated with the Desjardins movement in gaining access to international markets; and
- (d) to act as a consultant to regional federations on investment in businesses within their regions.

Other ID objectives include, in the first instance, seeking out entrepreneurs who have proven for making their businesses grow and become profitable, and who need additional strategic and financial support for acquisition, expansion or diversification projects; and, secondly, acquiring or maintaining majority or preponderant shareholdings in large companies which are actual or potential leaders in their sectors and should be owned in Québec.

At the regional level, ID has so far established five of a projected ten wholly owned regional investment funds. The funds reflect an explicit recognition by Desjardins that venture capital is often an essential ingredient for local businesses to succeed. For example:

Investissement Desjardins recorded a first by joining forces with a federation, the Fédération du Saguenay-Lac-Saint-Jean, to launch a new venture capital fund with capitalisation in excess of \$6 million. Through this partnership, the region's companies are able to draw on the expertise of Investissement Desjardins advisors, have access to capital tailored to their requirements, and receive strategic support to ensure their growth. The Fonds d'investissement Desjardins du Lac-St-Jean makes investments of \$50,000 to \$500,000.²¹

In addition, many of the Mouvement's regional federations and their individual credit union affiliates participate in some 284 other local and regional investment funds with assets totalling \$C3.5 billion. ID also supplements credit union capital and enhances development within Québec from overseas sources. Its international thrust is seen as being "to find foreign investors to become partners in Québec businesses, open foreign doors to Québec businesses and stimulate foreign investment in Québec".

As of 1999, ID was associated, either directly or through its funds, with some 74 small and medium-sized businesses that were either starting up or expanding their activities, thereby helping to maintain or create close to 15,000 jobs in Québec. Its strategy was to focus increasingly on the technology sector - on the computer software, telecommunications, health and multimedia industries - where its portfolio included some twenty

²¹ La Confédération des caisses populaires et d'économie Desjardins du Québec, 1998, *Desjardins 1998: The Co-operative Network of Financial Services*, p. 33

businesses, many of which were said in the Annual Report to be "just starting up and looked very promising".²²

Nor, finally, is Desjardins indifferent to the uses of development along explicitly mutualist and co-operative lines. It also invests directly in the creation of new mutualist and co-operative businesses through both individual credit unions and Desjardins-Laurentian Life Assurance. A notable example is services for older people. As the 1998 Annual Report records:

An aging population led several caisses to participate in setting up co-operatives offering home services, and DLLA is especially active in this field, giving financial support to the start-up and growth of co-operatives and the federation which groups them.²³

That mutualist enterprises should be fostered along these lines is consistent with the Mouvement's overall unflinching adherence to mutualist values and principles.

In Claude Béland's eloquent and stirring words: "For the Desjardins credit unions, developing stronger business relationships with their members and promoting the co-operative way of life in the communities they serve will remain priority areas of involvement for many years to come.²⁴ ... The social and economic disturbances currently affecting almost society around the world make the co-operative formula all the more relevant today, as communities seek ways to improve their lives in the midst of turmoil. In such an environment, our extensive network of financial co-operatives here in Québec is not only an invaluable asset for Québécois, but also a model for the world".²⁵

Mondragon

Mondragon is likewise a model for the world. The essentials of the Mondragon story are simple. Like the Desjardins credit unions, Mondragon was founded by a committed adherent of social Catholicism, the Basque priest Don Jose Maria Arizmendiarieta. The Basques were on the losing side in the Spanish Civil War. In Arizmendiarieta's words, "We lost the Civil War, and became an occupied region".²⁶ Appalled by the widespread destitution in the aftermath of the defeat, Arizmendiarieta set out to rebuild the local economy in Mondragon, along with the confidence and self-esteem of his parishioners.

His approach reflected a unique amalgam of ideas. Influenced as was Arizmendiarieta primarily by his social Catholicism, he also drew freely on a rich and disparate range of other traditions including Rochdale co-operativism, Raiffeisenian credit unionism, social democracy, Christian socialism and Bellocian distributism. Mondragon co-operativism and the

²² Le Mouvement des Caisses Desjardins, *1999 Annual Report* p. 102.

²³ Ibid, p. 32.

²⁴ La Confédération des caisses populaires et d'économie Desjardins du Québec, 1998, *Desjardins 1998: The Co-operative Network of Financial Services*, p. 3.

²⁵ Le Mouvement des Caisses Desjardins, *1998 Annual Report* p. 5.

²⁶ Quoted in Whyte W.F. & Whyte K.K., 1991, *Making Mondragon: The Growth and Dynamics of the Worker Co-operative Complex* (Revised Second Edition), Ithaca, New York, ILR Press, p. 242.

triumphant success of the co-operatives which embody it is his enduring memorial.²⁷

From a standing start in 1956, the Mondragon co-operatives have grown to the point where they are now the largest business group in the Basque region of Spain, the ninth largest business group in Spain and a major competitor in European and global marketplaces. What began forty-four years ago as a handful of workers in a disused factory, using hand tools and sheet to make oil-fired heaters and cookers, has now become a massive conglomerate of some 160 manufacturing, retail, financial, service and support co-operatives. Annual sales are now approaching - and will shortly exceed - \$US7 billion.

The MCC report for 1998 shows that sales of manufactured goods were up on 1997 by 13.8%, assets by 25.9% and profits by 31.7%. All told, the MCC provides jobs for roughly 3% of the Basque region's 1,000,000 workers. While the region has lost 150,000 jobs since 1975, and the level of unemployment is currently around 20%, employment in the co-operatives increased between 1997 and 1998 from 34,397 to 42,129. Export sales of MCC products in 1998 were up on 1997 by 18%, to 47%.²⁸ The MCC is Spain's largest exporter of machine tools and largest manufacturer of white goods such as refrigerators, stoves, washing machines and dishwashers. It is also the third largest supplier of automotive components in Europe - designated by General Motors in 1992 as "European Component Supplier of the Year" - and a leading supplier of components for domestic appliances.

Whole factories are designed and fabricated to order in Mondragon, for buyers overseas. In addition, subsidiaries operated by the MCC in conjunction with overseas partners manufacture - for example - semi-conductors in Thailand, white goods components in Mexico, refrigerators in Morocco and luxury motor coach bodies in China. MCC construction co-operatives carry out major civil engineering and building projects at home and abroad, the building of key facilities for events such as the Barcelona Olympic Games. The steel structure for the new Guggenheim Museum in Bilbao - a building comparable in stature to the Sydney Opera House - was fabricated by a Mondragon co-operative.

The MCC also includes Spain's fastest-growing retail chain - Eroski - which currently operates 37 Eroski and Maxi hypermarkets, 211 Consum supermarkets, 419 self-service and franchise stores and 333 travel agency branches. The MCC financial co-operatives - the Caja Laboral Popular credit union (CLP) and the Lagun-Aro social insurance co-operative - are among Spain's larger financial intermediaries.

The basic building blocks of the MCC are its manufacturing, retail, financial and service co-operatives, otherwise known as primary co-operatives. The primary co-operatives embody and exemplify the key values and principles of

²⁷ For the best account of Arizmendiarieta's thought so far available in English, see MacLeod G. 1997, *From Mondragon to America: Experiments in Community Economic Development*, Sidney, Nova Scotia, University of Cape Breton Press. For a more comprehensive account in Spanish see Azurmendi J. 1991, *El Hombre Cooperativo: Pensamiento de Arizmendiarieta*, Mondragon, Otalora Institute.

²⁸ *Mondragon Corporacion Cooperativa, 1998 Annual Report*. Mondragon, MCC.

mutualism. Each primary co-operative is governed by a General Assembly. General Assembly meetings are held at least annually to receive reports and determine policy. The Assembly in turn elects by and from its members a Governing Council, ranging from three to twelve members. The Council steers the affairs of the co-operative between Assembly meetings. Governing Council members hold office for staggered four-year terms, with elections at two year-intervals.

There is also an Audit or Watchdog Committee to independently monitor the co-operative's financial performance and its compliance with its formally established policies and procedures. The Governing Council holds regular consultative meetings with a Management Council consisting of the Chief Executive Officer and his senior executives. Independent of the Assembly and its offshoots, workplace groups within the co-operative elect a Social Council, which has a quasi-trade union function, with responsibility for areas such as job evaluation and industrial health and safety. Recent years have seen an increasing emphasis on industrial democracy - on participation and consultation at the shopfloor level - within many of the co-operatives.

Individual co-operatives are linked in co-operative groups. Originally, the groups had a geographical basis. However, with the establishment of the MCC in 1991 - with the replacing of Mondragon Mark I by the current Mark II model - they have been re-constituted along functional lines. There is a Financial Group, a Retail Group and an Industrial Group, with the Industrial Group in turn split into seven sub-groups. The aim is for the co-operatives within each group to engage in in-depth and continuous strategic planning, to identify and exploit economies of scale and business synergies, and to operate within an agreed overall strategy.

A further and final level of linkage is afforded by the peak bodies of the MCC: the MCC Congress, the General Council and the Standing Committee. The key role of the Congress is setting the overall policy and direction of the co-operatives. The General Council is responsible for drawing up and applying overall corporate strategies and co-ordinating the activities of the co-operatives and co-operative groups. The Standing Committee monitors the performance of the Committee and the groups, and sees that the decisions of the Congress are implemented.

To what then are the achievements of the MCC attributable? Firstly, the success of the co-operatives stems from the fact that every permanent worker is an equal co-owner of the co-operative where he is employed, with an equal say on a one-member-one-vote basis in the governance of the co-operative and an equal proportionate share in its profits or, on occasion, losses. Each worker has an individual capital account which is credited annually with his share of the co-operatives profits and enables him to maintain an on-going appraisal of the performance of the co-operative and its the management and his fellow members. In the words of a recent CEO of the MCC, Javier Mongelos, "The workers who own these co-operatives know their future depends on making profits".²⁹ The upshot is - among other things -

²⁹ Mongelos J. 1994, as quoted in Parry J.N. "Mondragon Pushed to the Peak of Success", *European*, 28/10/94, p. 12.

a reduction in the agency costs the co-operatives incur, and a corresponding increase in their competitive advantage.³⁰

Secondly, the primary co-operatives are serviced on a mutualist basis by a unique system of secondary support co-operatives. Arizmendiarieta became aware at an early stage of the development of the co-operatives of the need for them to be self-sufficient. The support co-operatives were his answer. Capital is now sourced by the primary co-operatives from a support co-operative, the Caja Laboral Popular credit union (CLP), as is - for example - superannuation and other benefits from the Lagun-Aro social insurance co-operative, research and development services from the Ikerlan and Ideko research and development co-operatives and technical skilling from the university of technology co-operative. The structure of the support co-operatives differs from the primary co-operatives, in that they are owned and governed jointly by their workers together with their primary co-operative clients. Profits distributed to workers in the secondary support co-operatives are linked to those of the primary co-operatives.

Third - and finally - the Mondragon credit union, the Caja Laboral Popular, has been much more than simply a source of capital for expanding current co-operatives or creating new ones. In the phase of rapid expansion which preceded the maturing of the co-operatives as signalled by the establishment of the MCC, what was then the Empresarial or Entrepreneurship Division of the CLP offered a uniquely comprehensive and effective service for incubating co-operatives and ensuring their success. Groups seeking to establish co-operatives were initially assigned a mentor or "godfather" to work with them in the preparation of their application for a loan. Once loans were secured, the mentors remained with the co-operatives in order to assist them in the setting up of their business and enabling them to operate profitably.

As a condition of its loan, a new business entered into a Contract of Association with the CLP which specified - among other things - the mutualist structure and processes it should adopt. It was likewise a condition of the contract that specified performance and financial data should be reported to the CLP on a regular basis. Thanks to regular and comprehensive reporting, the CLP could count on receiving early warning where co-operatives experienced difficulties, and provide added specialist support through an Intervention Group within its Empresarial Division.

So effective was the Entrepreneurial Division that only a handful of the co-operatives have failed to become going concerns. Consequent on the establishment of the MCC - on the move of the co-operatives from the Mark I to the Mark II stage of their development - the functions of the Empresarial Division have now been re-assigned, with some elements being incorporated within the MCC and others in new management consultancy support co-operatives. Mondragon's on-going expansion is now much less through establishing new co-operatives, and more through strategic acquisitions and alliances.

³⁰ For agency costs and competitive advantage in worker-owned businesses, see Mathews, 1999, pp. 10-12.

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