

**United Nations**  
**Expert Group Meeting on**  
**“Cooperatives in world in Crisis”**  
**28-30 April 2009, New York**

Notes for the brainstorming session

By Ghislain Paradis

1. This week we are invited to “explore the relevance of cooperatives to socio-economic development in light of the current global crisis; and identify the opportunities and challenges cooperatives face”.
2. This morning the focus is on financial cooperatives (FC); three questions on the agenda:
  - How are cooperative banks and credit unions affected by the liquidity and financial constraints; what strategies are pursued to meet these challenges?
  - What are the implications of the above challenges and the cooperative responses on the provision of financial services?
  - What challenges do cooperative banks and credit unions face to broaden their outreach; what measures are needed?

I will concentrate my attention on the third one having in mind developed and emerging countries. I'll be mainly influenced by the challenges faced by those who have to concretely manage, protect and develop cooperatives.

Please I invite you to look at these comments as a beginning of a ... brainstorming.

**Outreach, impact and sustainability**

3. First, allow me to complement this third question: The current crisis, for sure, invites cooperative banks and credit unions to see how they could broaden their outreach. This outreach however should be balanced with two other dimensions: Their impact and their sustainability<sup>1</sup>. We all know that Fannie Mae and Freddie Mac had a very big outreach. However how about their impact and their sustainability? This perspective is very important not only, but particularly in developing countries where outreach doesn't guarantee impact or sustainability. FC pioneers understood it at the very beginning: Many of them targeted rural areas where access to basic financial services was inexistent; and their search for financial autonomy has been a constant concern.

This trend goes on nowadays.

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<sup>1</sup> See Annex 1. This tool used in a course of microfinance could be also useful in the present discussion

4. In developed countries, in Québec, France, the Nederland, Germany, Finland, Austria for example, access to financial services in many small towns or villages is often offered only by financial cooperatives. It is the same reality in developing and emerging countries. For example, in West Africa, in Burkina Faso (Réseau des caisses populaires du Burkina Faso), in Mali (Niesigyso, Kafo Jigeney), in Senegal (Pamecas, Crédit Mutuel du Sénégal), where Desjardins Group, Crédit Mutuel and Crédit Coopératif has been associated for many years with local leaders, one can see at work healthy cooperative networks managed by national experts offering services not only in Ouagadougou, Bamako or Dakar but also in almost every part of these countries. In Mexico where a vast reform of the *banca popular* has been in progress for almost ten years, national cooperative networks, in partnership with Desjardins Group, the World Council and Raffeisen Germany (DGRV) have member cooperatives or points of service in many small towns, villages and *barrios*. There is a cooperative, Caja Popular Mexicana (CPM), which is present practically everywhere in the country. In Chile, a very efficient modern network COPEUCH, led by a dynamic lady, has also a national coverage. Why this is possible in these countries and also in Lithuania, Poland, Rwanda, Peru, Salvador ... For three reasons:

- The high efficiency reached by FC in developing and managing networks. How to reconcile national brand, economy of scale, modern services, good governance and powerful lobby with local identity and autonomy, decentralization and relatively small units? For many of them, through networks structured and ruled in very original ways. Integration, which is a result of this type of network, tends to reduce volatility of efficiency and performance and favors harmonization of marketing objectives between small and large cooperatives. Furthermore, “integration appears to help control measure of managers' expense preferences that tend to affect performance. Despite high costs of running hub-like organizations, these highly integrated systems economize in bounded rationality and operate at lower costs”<sup>2</sup>.
- Through cross-subsidization and partnership: A small cooperative located in a remote area for example can enrich its service portfolio thanks to the expertise and the equipment of the network where larger urban or metropolitan units absorb the main part of the required investment and fixed costs, even sometimes a part of the variable costs. This often is a win-win partnership for even larger cooperatives, because they could guarantee their patrons a “presence everywhere in the country”.
- And finally, some would say this factor is the first one, solidarity and intercooperation are inherent, genetic parts of the coop soul.

5. FC impacts are evident at macro levels: For example,

- In France, Crédit Coopératif is highly involved in supporting, through fair lasting business relations, social economy initiatives and institutions; Banques Populaires Group is a leader in the SME financing market.

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<sup>2</sup> Desrochers, Martin and Klaus P. Fischer (2005)

- Rabobank has been for years a permanent partner of the agriculture industry in The Netherlands and abroad.
- OP-Pohjola Group in Finland (formerly Oko Bank Group), the only financial institution controlled by Finnish people and Desjardins Group in Quebec, the first financial institution in the important Canadian French speaking market, are both respected, powerful and efficient partners in the agriculture, housing and SME markets of their respective countries.

I could go on this way with cooperative bank importance at macro level in OECD countries and in many regions of the developing world.

6. I will rather say some words about positive impacts financial cooperatives, sometimes directly, sometimes through other cooperative partners, have in some small communities of developed countries and in emerging markets. I referred above at Cr dit Coop ratif which associates with various social economy initiatives in France. It's the same with Desjardins Group in Qu bec which sponsors and financially supports sectors where citizens encounter difficulties to launch or to grow coop or "social economy" initiatives, for example in the forest, health, funeral services, micro and small enterprises.

7. There are many successful projects in various countries. As examples, I invite you to take a glance at two short papers dealing with the impacts of cooperatives. A first one analyses the impact of financial coops in Burkina Faso<sup>3</sup>. The second, a study case, proposes a description of a modest but fabulous experience in Qu bec: The "solidarity cooperative", also called "multi-stakeholders cooperative" of Saint-Camille<sup>4</sup>. This case study looks at how a small rural community has aimed and succeeded to reverse the trend of rural de-population, and rebuild services and economic opportunities for local people. In this experience, the FC played a discrete but necessary role in providing at some stages of the project financing at low rates. Bernard Cassen, a collaborator of *Le Monde Diplomatique*, the well-known French monthly newspaper, wrote an interesting story on this experience.<sup>5</sup>

8. The relative importance of the FC in the banking world is an evident and powerful indicator of their sustainability. A study of  cole de Hautes  tudes Commerciales of University of Montr al revealed that at the end of the last century, the asset of financial cooperatives in the world was 17 %<sup>6</sup>. In Western Europe, in Japan, in Qu bec, this percentage could reach 30, 40, even almost 60 % of the national banking asset.

9. The stability of cooperative banks is even stronger than that of commercial bank according to IMF experts: A 2007 IMF study concluded:

"The findings in this paper indicate that cooperative banks in advanced economies and emerging markets have higher z-scores than commercial banks and (to a smaller extent) savings banks, suggesting that *cooperative*

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<sup>3</sup> Gaboury, Anne, Jean-Pierre Kalala, Pierre Larocque (2002)

<sup>4</sup> Cooperatives Secretariat, Government of Canada (2005)

<sup>5</sup> Cassen, Bernard (2006)

<sup>6</sup> C t , Daniel et Martine V zina (1998)

*banks are more stable. (...). We suggest that this observed lower variability of returns, (...), may be caused by the fact that cooperative banks in normal times pass on most of their returns to customers, but are able to recoup that surplus in weaker periods. To some extent, this result can also reflect the mutual support mechanisms that many cooperative banks have created.*<sup>7</sup>

10. The authors add :

“... high presence of cooperative banks appears to weaken commercial banks, in particular those commercial banks that are *already weak*. (...) This empirical result can be explained by the fact that a higher cooperative bank presence means less space for weak commercial banks in the retail market and therefore their greater reliance on less stable revenue sources such as corporate banking or investment banking.”<sup>8</sup>

11. Said in other words, cooperative banks collaborate not only to stabilize the market, but also to “purify” it and to force corporate and investment bankers to improve their risk management. This contribution to the banking industry is more than accurate by the time being...!

12. To conclude this part, let’s convene that outreach, impact and sustainability are the main general targets of cooperatives; the equilibrium between these three objectives is a constant concern. While targeting this equilibrium, cooperatives become loyal and lasting partners for any stakeholder aiming at improving equity and fair distribution of wealth, citizen and community development and empowerment. The quality of this partnership is insured by two main factors:

- The basic values of cooperatives are convergent with these socio-political objectives; cooperatives share the same utopia and will always strive to achieving this mission
- A cooperative has its roots, its *raison d’être* in the community where it was born, where it operates. The well-being, the development of this community influences directly the growth and the success of the cooperative. The core parts of a cooperative cannot be delocalized. Its survival is genetically linked to that of the community where it does business.

#### **A model adapted to the current reality?**

13. Nobody in this room has to be convinced of the strength and the accuracy of cooperative model. We all want to keep this model powerful, effective and respected. Given our responsibilities as leaders, technocrats, professors or scholars, we have the duty to position the coop approach as a valuable, different and complementary response to address the challenges created by the rapidly evolving environment.

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<sup>7</sup>Hesse, Heiko and Martin Čihák (2007), p 19..*Cooperative Banks and Financial Stability*, IMF Working Paper . Italics are ours

<sup>8</sup> Ibid

14. In the aide-mémoire of this meeting and in various FC annual reports or leaders' speeches, the expression "cooperative business model" is often used. What does that mean? A beginning of an answer is given by the "official" statement of the cooperative identity revised and adopted in Manchester in 1995<sup>9</sup>. This statement we all know proposes a definition, values and principles inspiring and guiding the governance, the management and the promotion of cooperatives worldwide. If the basic values included in this statement aren't in principle negotiable, however their implementation guided by the "principles", may be flexible, I think. It could be interesting to describe, assess, comment how things evolve concretely in the real life, how are these principles implemented, how is the *cooperative business model* implemented?

15. To help us in sharing our points of view on the evolution of the cooperative business model and on the challenges this model has to deal with, I propose a framework<sup>10</sup> likely to help us to see the whole picture. This framework has five main variables: members, offer, core values and distinctive capabilities, finance and governance, variables broken down in 12 dimensions. We don't have time (and the data) this morning to carry out an analysis, even a light one, of the concrete evolution of the model of each of these dimensions and of the inter-relations between them. However a glance should allow us to rapidly understand the way we could use it. Here are some questions:

- Value added proposition:
  - i. Do cooperatives only offer concrete products and services? How do they promote their people-oriented mission ?
  - ii. Do they lobby to change some rules of the "socio-economical game"?
  - iii. How do they address, comment, and assess the present crisis? Are they original?
  - iv. Core value: Commercial banks and cooperative banks, different official values? Indicators of these values?
    - Distinctive capabilities:
      - i. Do cooperatives really need distinctive capabilities? What are they? Only related to business management?
      - ii. The socialization, the training processes, something peculiar?
      - iii. How do they transmit values, the heritage
        - Members segments
          - i. Members, clients? Are they different ... concretely?
          - ii. Which segments are more important ... concretely?
          - iii.
        - Capital base
          - i. Its structure?
          - ii. Members' contributions?
          - iii. Ownership?
        - iv. Past and future development: The sources of capital?
          - Control

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<sup>9</sup> <http://www.ica.coop/coop/principles.html> (April 20, 2009)

<sup>10</sup> Annex 2

- i. Network management and functioning; subsidiarity principle?
- ii. Technocrats' power vs elected persons'?
- iii. Member vs investor?

**Answers? Yes, but...!**

16. The answers to these (and many other) questions can lead to a comprehensive understanding of the specific business model of a cooperative (or a cooperative sector) and allow to see which features are original, which ones are close to the statement of cooperative identify, which ones are, let's say, audacious.

17. With my students and some colleagues I've begun using this framework... Our analyses have not been scientific. So I cannot share with you robust conclusions. However, supported by analysis carried out by scholars interested by the agriculture<sup>11</sup> and financial cooperatives<sup>12</sup>, we reached some intuitions! These intuitions are also fed by the content of interviews I carried out with cooperative bank leaders over the last 2-3 years.

18. The sources of capital compatible with traditional cooperative principles are scarce. Some new experiences mainly in Europe but also in North America invite the cooperative community and their partners to challenge their usual frame of reference and mindset. Some cooperative banks have a part of their assets listed; others chose to issue non voting bonds, debt certificates whose yields for some are partly based on the financial results of the institution. Within the cooperative bank community, there is no consensus on this issue, particularly about the option of becoming listed. For sure this question is very delicate. On one side, cooperative needs capital to develop: "We have the choice: staying pure and being gradually marginalised or being innovative (sic) and, (to use a euphemism), provoking surprises", said a respected Chairman of the Board of a well respected network. On the other side, cooperatives, as people-centred businesses, have to protect their "basic platform" to be able to pursue their mission. My opinion is that this trend will go on with common accepted guidelines or not: Cooperatives do need capital! The debate should become more open, based on analysis of current experiences and documented explorations of new avenues.

19. "The members' role (in large cooperatives) is evolving towards a dead end", said another leader. Persons associated with larger cooperatives may deplore the members' lack of interest in the management of the institution, particularly in cooperatives with a light *lien d'usage* (usage link ?) with his(her) cooperative, as it is in cooperative banks. One can tackle this issue different ways. As for me, I think that trying to mobilise all the cooperative members, even only an important part of them, is not necessary and is even inefficient. Why?

20. In a small cooperative, in a cooperative at its beginning or in a cooperative with high *intensity d'usage* as in agriculture, member participation is relatively easy (less

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<sup>11</sup> Chaddad, Fabio R. and Michael L. Cook.

<sup>12</sup> Gianfaldoni, Patrick (2007), *Les Banques coopératives françaises à la recherche d'un nouvel équilibre institutionnel*, Ecole thématique " Les méthodes de l'analyse institutionnelle " – La Rochelle

difficult) to stimulate...most of the time. However, in larger cooperatives, in cooperatives where one has other choices, in cooperatives where regular physical contacts are no longer necessary, common sense invites us to propose alternatives. Cooperatives, as many other people-centred organisations, have to compete in a very peculiar “market”: the market of social engagement. We have to fine-tune our offer to attract motivated, committed and competent members’ representatives. Some interesting experiences are carried out in some networks, in Germany and Finland, for example. The Electoral College model could be an avenue to explore.

21. The complexity of the financial sector, the competition, the obligation (?) to expand in new sectors request contracting experts with experience in different cultural environments, adopting unusual incitative compensation policies, offering services in unknown markets. How to socialize new comers? How to design compensation programs likely to attract talented professionals and compatible with the nature of human motivations and the essence of cooperative identity? These challenges (socialization and compensation) are very critical given the power given to (or taken by) executives, even in cooperative networks with strong and clever board members: *Tell me how you are paid, I'll tell you how you behave!*

22. Development, rationalization and vertical integration, leads to “cooperative holdings”<sup>13</sup> whose requirements and culture could threaten the basic values and habits of primary cooperatives, cooperatives which are the pillars of the whole system. Many networks over the last 10 years have had to directly address this issue. Some developed models deserve our attention. Not because they are perfect but because they could have features which, put together, could lead to powerful structural innovations. Desjardins Group, Rabobank, Crédit Agricole, OP-Pohjola Group among others have gone through interesting processes over the last 10 years.

23. The firms maximize profit. It is the sole objective of the firms according to the classical theory. It is evident that such a conceptual frame of reference is inadequate for understanding the economic behaviour of cooperatives: How about maximizing member welfare, patronage refunds, community development, low costs, ... It is evident that these finalities call for separate analysis likely to lead to different conclusions. How cooperatives could get a “level playing field”? Few scholars or academics pay attention to cooperatives in general and to cooperative banks in particular. For sure, it is not fashionable. Furthermore, the offer of financial support is low. Whatever the reasons, cooperative community needs to be supported by scholars, particularly by young talented contrarians in order to increase explicit references to cooperatives in the literature and to stimulate robust innovations in the cooperative business model.

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<sup>13</sup> Côté, Daniel et al. (2001)

## Conclusion and recommendations

24. Very accurate recommendations have been already made to address the challenges and opportunities cooperatives face<sup>14</sup>. Allow me to highlight a couple of them and to complement the list.

- Bilateral and multilateral institutions (mainly World Bank, IMF, regional banks and CGAP ...) should be invited once again to integrate in their development strategy the setting up and strengthening of financial cooperatives. This “invitation” however should take into account the bias which seems to develop intensively and openly within these institutions over the last ten years: Investor-oriented firms mindset (IOF). Most of the time, they don’t trust the cooperative model. The lobbying efforts should demonstrate empirical evidences of the outreach, impact and sustainability of cooperative enterprises. The capacity of cooperative to surpass in some markets the possibilities and the efficiency of IOF should be emphasized.
- Investigations should be carried out towards understanding the new financial cooperative empirical models designed all over the world these 10 last years. The cooperative international community and its partners should propose a frame of reference likely to stimulate and guide innovations in this field. Currently the leadership to address these challenges is taken by individual institutions often within time limit pressures, by consulting firms and by investment bankers! It is evident that their solutions have to be ...challenged.
- FC should differentiate the nature of its relations with its members-users: Some want to have good, efficient, convenient services at low costs; some look at FC as sympathetic, useful institutions they want to support; others would like to get involved in its governance but cannot; others could positively look at the possibility to invest capital in its development in a win-win relation, a few have the capacities, the interest and the time to invest their energy in its “supervision” and development. This reality should be openly recognised and should influence the way FC deal with participation and democracy issues. Thus FC could correctly protect, develop and transmit the “intergenerational endowment” they inherited and give a valuable and credible answer to those pretending that its capital nature and governance structure “reduce members’ incentives to exert effective oversight over management”<sup>15</sup>.
- Socialisation, training and compensation of FC executives should be identified as critical issues. For sure, this responsibility is specific to each institution. Some FC networks developed interesting programs to address these challenges. However, few activities, if any, have been organized to share the individual experiences, to identify best practices and hopefully to propose innovations
- Adapting FC to the modern environment, to the “new normal” realities requests analysis, investigations, surveys, etc...Academics and students

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<sup>14</sup>See Birchall (2003, 2004), Fonteyne (2007), p.52-54

<sup>15</sup> Fonteyne, p 4.

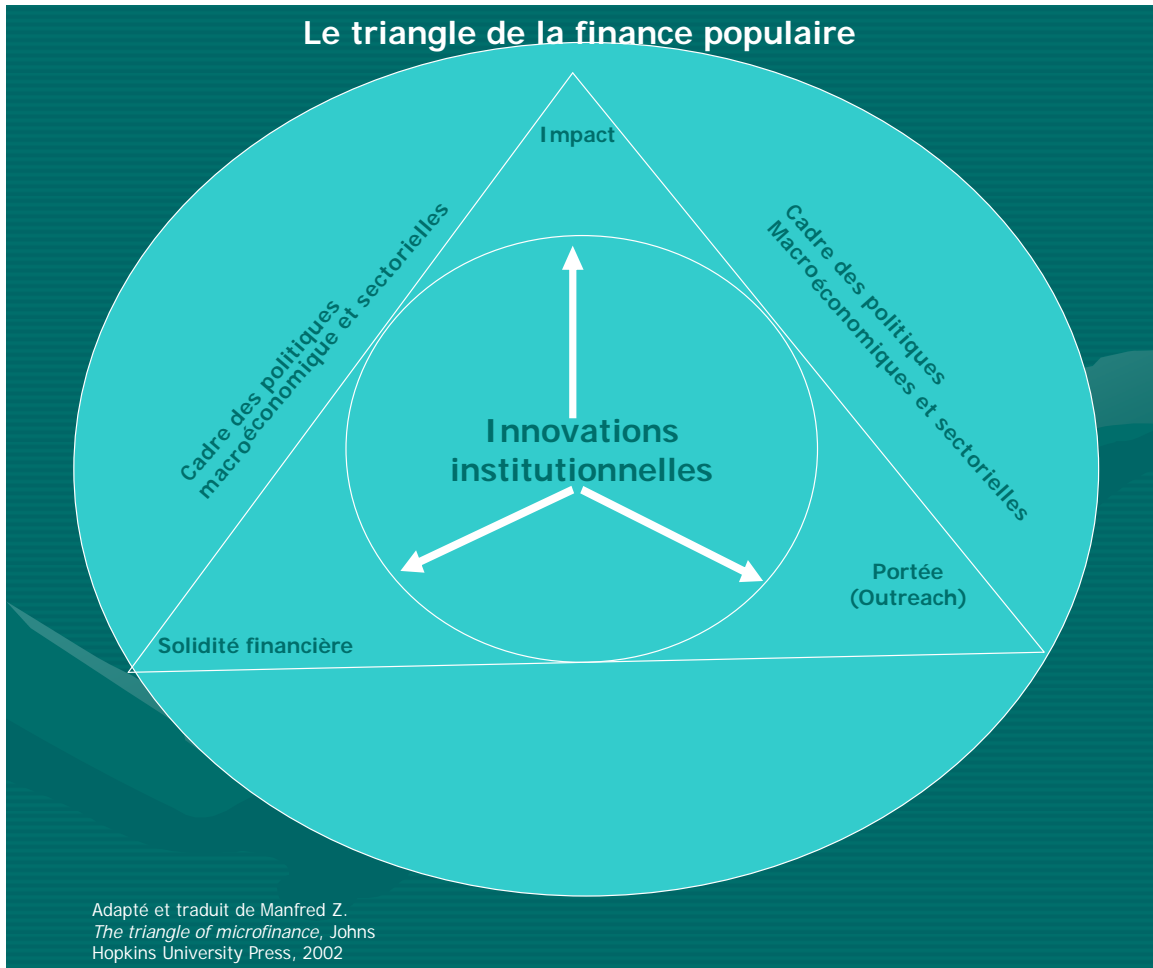


should be encouraged and supported to bring their contributions to these efforts. They do need financial resources for sure. However in addition to that, the FC community should not forget to give them full access to their realities and information and positively accept divergent points of view coming from them.

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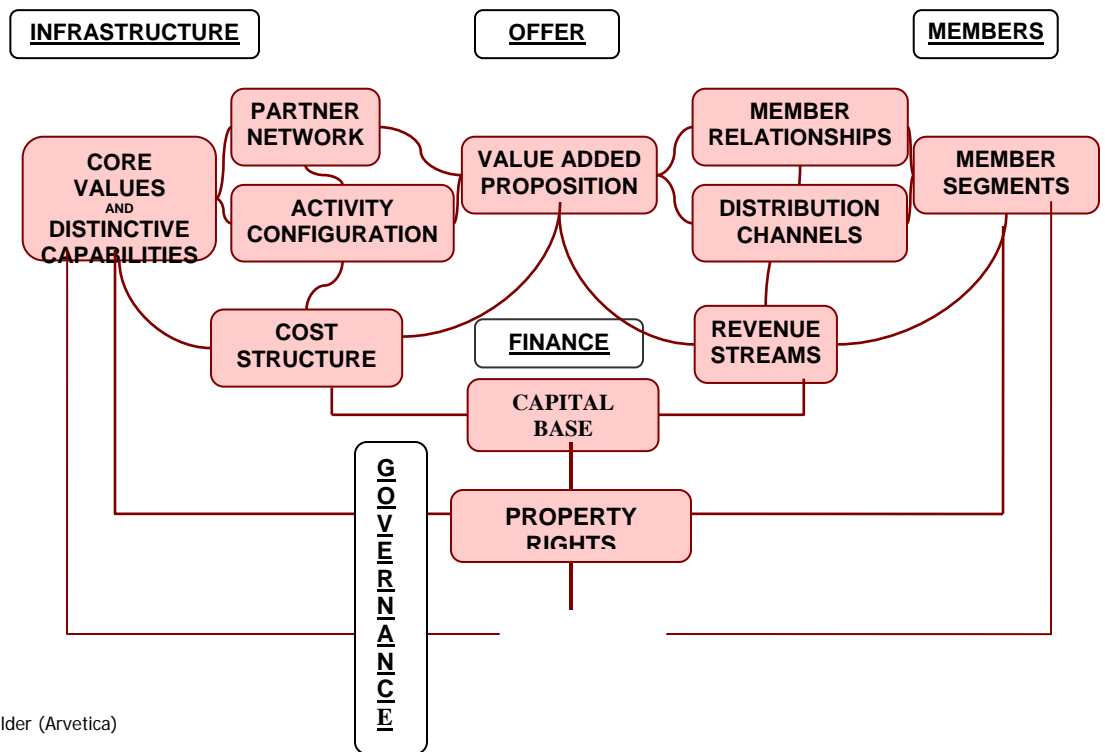
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## Annex 1: Search for equilibrium



## Annex 2: Cooperative business model framework

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Adapted from Osterwalder (Arvetica)