Financial Co-operatives for the New Millenium: A Chronographic Study of the Indian Financial Co-operatives and The Desjardins Movement, Quebec

M S Sriram

Indian Institute of Management, Vastrapur, Ahmedabad 380015
Phone:++91—79-6324954 (O) • Fax: ++91-79-6306896 •
Email: **mssriram@iimahd.ernet.in** • Website**:http://www.iimahd.ernet.in/~mssriram**

Financial Co-operatives for the New Millenium:
A Chronographic Study of the Indian Financial Co-operatives and The Desjardins Movement, Quebec

Abstract

The paper looks at the developments in the Indian Financial co-operatives and the Desjardins movement, Quebec in the last century. The paper traces the policy backdrop in the Indian and Quebec contexts and how they shaped the growth of co-operatives.

The documentation of the significant events is divided into four phases. With this backdrop, the paper discusses the shape of things to come in the new millenium.

While the Desjardins movement has taken a certain route in developing, the paper advocates that Indian co-operatives at this juncture need not look at replicating it – but rather improve upon the effectiveness through alternative growth models. It also deals extensively on the inevitability of the route taken by Desjardins and looks at the strategy for the Desjardins movement as well.

Financial Co-operatives for the New Millenium:
A Chronographic Study of the Indian Financial Co-operatives and
The Desjardins Movement, Quebec♣

M S Sriram♦

Introduction

Modern co-operation started with the consumer co-op movement in England around the middle of the nineteenth century. Around the same time, there emerged a vibrant credit union movement in Germany inspired and promoted by Raiffeisen (Muller, 1986). Ever since these efforts, the field of co-operation has flourished in not only these two sectors of the economy but also spread in several other sectors all over the world. But the consumer co-op movement of Britain and the credit union movement of Germany have wielded the most significant influence on the financial co-operatives (co-ops). The consumer co-operative (co-op) movement largely gave the design of the organization by enunciating the co-op principles and thereby laying the ideological rules for internal governance. The Raiffeisen movement demonstrated effectively that self-help thrift and credit unions were a very effective solution to intervene in usurious markets.

Indian financial co-op movement had its early roots in the late 19th century. The first co-op was established in 1891 for controlling the common land of the village (Hough, 1960). Around the same time there were co-ops established in Baroda in Gujarat area as well as near Ahmednagar and Pune in Maharashtra following the Deccan riots. The first co-op legislation was passed in 1904. From then on, the state has evinced keen interest in promoting co-ops in the area of rural credit and has come out with several significant policy measures addressing the co-op sector. As of March 1997 we had 91720 primary agricultural credit co-ops in the country (NABARD, 1999). However, the rural co-op structure has not been in the best of its health and alternate approaches are being tried out to address the issue of rural financial services. However it might be important to take a re-look at the design of the co-op structure to examine the role of rural financial co-ops in the new millenium.

Very much like the Indian co-op movement, the co-op movement in Quebec, also started around the same time. Today, the Desjardins movement of Quebec is the largest financial service providers in the province, and indeed the fifth largest in Canada. It provides a full range of financial services to all its members. Desjardins movement represents 80% of the population in Quebec province – including children who are members of the co-op network. The movement is almost a hundred years old – the first Caisse (or a primary credit union) being set up as far back as in 1900, by its founder Alphonse Desjardins (Sriram, 1999). Ever since, the movement has grown stronger, while remaining true to co-op values and democratic spirit. Currently Desjardins movement represents a complex network of various levels of co-ops and some corporations owned by the network. Desjardins has to make some strategic choices on its own role and relations with the members in a technologically advanced networked world. It is a world of intense competition and immense choices. The Desjardins movement (like the Indian co-op movement) was greatly inspired by the Raiffeisen co-ops of Germany. The growth of the

♣ This paper was earlier presented at the National Symposium on Building and Managing Organisations for Rural Development in the New Millennium held at the Institute of Rural Management, Anand (IRMA), India on December 13-14, 1999. The author acknowledges the support received from BASIX, Hyderabad, Developpement International Desjardins (DID), Levis, Quebec and Canadian International Development Agency, Ottawa/Hull in carrying out the study. The author is also thankful to Mr.Pierre Giguere of DID, and Prof.K.Prathap Reddy of IRMA for their feedback on the first draft of this paper.

♦ The author is a Fellow of the Indian Institute of Management, Bangalore (IIM-B) and is on the Faculty of the Indian Institute of Management, Ahmedabad (IIM-A).

movement (unlike Indian co-op movement) was largely triggered from within and helped the State to formulate co-op policies based on the example of the movement.

This paper is a chronographic study of the financial co-op movement in India with specific comparison of a chronographic study of the Desjardins movement of Quebec, both of which have a century old history. In documenting the significant events of this century it examines the strategy adopted at each phase and how it led to the direction which the co-ops took. The paper then contrasts the type of problems the two movements are facing at present and uses the learnings from the Desjardins movement to chart out a path for the co-ops in India in the new millenium. The chronography of the two movements are divided into 4 phases representing significant developments or events in the history of the co-op movement. It is to be stated that both the movements are now at crossroads and need strategic inputs in their respective contexts. The concluding part of the paper analyses the current strategic choices available to both the movements for sustaining the co-op movement and co-op spirit.

The First Phase 1900-1930

In the first phase, co-ops were being discovered by the State in India. Soon after the early co-ops were set up, the State passed a legislation to govern co-ops. This happened in the year 1904. The process of drafting the legislation started as early as July 1901 by a committee headed by Sir Edward Law. It is observed that the co-op legislation was framed on a purely theoretical concept, as there were no such organisations existing in India until then (Munkner, 1971). The law got a final shape in 1904 (RBI 1989). In 1912, the legislation was amended to include the registration of non-credit co-ops as well. By 1915, it was reported that there were more than 800 primary co-ops all over India.

Between the enactment of the first legislation in the beginning of the century and 1930, the Government set up three different committees to look into the functioning of co-ops. This in itself indicated the interest expressed by the State in the field of co-operation. First, it was the Edward Law committee on co-op legislation preceeded by the study by Frederic Nicholson which confirmed and reiterated the need for the State to actively promote co-ops (Sriram, 1992). In ther year 1915, the Government set up the Maclagan committee to look into the state of co-ops in India. The committee advocated that there should be one co-op for every village and every village should be covered by a co-op (RBI, 1952).

Towards the end of this phase, the State was already deeply involved in promoting co-ops. The Government set up the Royal Commission on Agriculture in India, which submitted its report in 1928. Amongst the various observations of the Commission made – it had suggested that the co-op movement must continue to be directed towards the expansion of rural credit and the State should patronise co-ops and protect the sector. It was the Royal commission which made the observation that *"If co-operation fails, there will fail the best hope of Rural India"* (RCA, 1979).

As we can see from the above description, the State was very much involved in promoting the co-ops as an instrument of credit delivery. The co-op structure that we have today is largely a result of the interventionist role that the State has played in the rural credit market over the century. It is therefore that we have a system of refinance – initially by the Agriculture refinance cell of the Reserve Bank of India, then the Agriculture Refinance and Development Corporation and later by the National Bank for Agriculture and Rural Development (NABARD). We would be seeing that as time progressed the State got more and more involved with the co-ops which were largely seen as instruments delivering the Government schemes.

On the other hand, the Desjardins movement also came as a direct response to the usurious interest rates being charged by the moneylenders. The basis of this movement was savings and mutual aid rather than external aid. Alphonse Desjardins who promoted the co-ops largely believed that the problems of the people had to be solved by themselves and not by the others. The first Caisse Populaire (the primary level co-op) was started in 1900 in Levis. Alphonse Desjardins was greatly influenced by the experiments that were carried out in the European Nations – including Germany, France and Britain. In particular, he was greatly influenced by the Raiffeissen model of Germany and by a book by Henry Wolf titled *Peoples Banks*. Based on the experiences of European nations and the peculiar needs of the province of Quebec, he formed the first Caisse Populaire in the city of Levis. For the next four years, the movement added only 3 more Caisses as the experiment and its viability was tested.

At that time, there was no law governing the formation of Caisses in the province of Quebec. It was only in the year 1906, after many debates and one abortive attempt, that the Quebec Legislature adopted a bill on co-op unions giving the Caisses a legal status. It was very clear that the State was only providing legislation for people to carry out this business of mutual aid based on the co-op principles. Throughout the history of the co-op movement of Quebec, it can be seen that the legislation came in only after the movement had laid down the basic operating procedures at the field. The State was being responsive in helping co-ops rather than assume an activist role in promotion of one form of business or the other. It was the people led by Alphonse Desjardins who believed that it was necessary for them to associate themselves in the form of Caisse Populaires.

From 1907 onwards – once the legislation was in place – Alphonse Desjardins started promoting Caisses across Quebec. The Quebec clergy provided much help by providing a legitimacy, recognition and moral support to Alphonse Desjardins in his endeavor. Desjardins never received any monetary support from outside. The growth of Caisses increased rapidly after there was a legal approval and more than 140 Caisses with about 30000 members were formed before 1920, the year in which Alphonse Desjardins died at the age of sixty-five.

From 1920 onwards, while the work of forming more Caisses continued, a successful attempt was made to group the Caisses under a federal body. The objective of the federal body was to promote, regroup and strengthen the activities of the Caisses. It can be seen that the work of promoting more Caisses was being assumed by the movement and not by the State. Several of these independent Caisses came together to carry out activities of common interest.

Around the time when Indian co-op movement was still engaged in the following debates:

- Whether there should be a single purpose co-op or a multi-purpose co-op at the village level;
- Whether each village should have a co-op or not.

By this time, the co-operators in Quebec had gone from the base level to establish a federated structure. The role of the federations was also being defined in precise terms.

The Second Phase: 1930 to 1950

This phase did not represent too much action in the Indian financial co-ops. There seemed to be a policy lull until 1945 when the Agricultural Finance Sub-committee was set up. There were already signs of sickness in the Indian financial co-op movement. The sub-committee observed that a large number of co-ops were faced with a problem of frozen assets as a result of heavy overdues. Already the first signs of the State intervention in the credit discipline of the members was evident when the sub-committee recommended liquidation of frozen assets of the members by adjusting the claims of the society to the repaying capacity of the members (RBI, 1965).

Around the same time there was another committee set up to look into the co-op sector – The Co-operative Planning Committee. The Committee looked into the causes of co-op failure and identified the small size of the primary co-op as the principal cause of failure. It also advocated State protection to the co-op sector from competition.

In case of the Desjardins movement, the later phase of the decade of 20s was testing as there was a global recession and the world went through economic depression. The regional unions were not strong enough to provide the necessary support that the Caisses would have needed. However the movement emerged stronger after 1930. By the year 1932, apart from many more Caisses, several regional federations had been established. All these regional federations confederated under a single provincial confederation. The movement had taken initiative in self-regulation and set up its own inspection cell in each of the regional federations. When the provincial federation was formed, the role of inspection was then shifted to the provincial federation. The growth of the movement also accelerated during the decade of 1930s.

By 1944, the number of Caisses had reached a number of nearly 900 with over 300,000 members, and an asset base of $92 million. During those years, the rest of the regional federations were also established. The movement was now in a position to look at the other needs of its members. While the basic problem of savings and credit were being adequately addressed and still formed the core, the movement identified the need to launch new financial products. So the decade of the 40s was a decade of consolidation and growth.

In the year 1944, the Assurance fund for the Caisses Populaire was set up. This would ensure that the interests of the members are protected in adverse circumstances. This fund would take care of potential sickness in any Caisse Populaire. This was just a pro-active measure taken up by the movement and has, over the years helped members to repose a great degree of confidence in movement. In 1948, the movement diversified into insurance by setting up Desjardins Life.

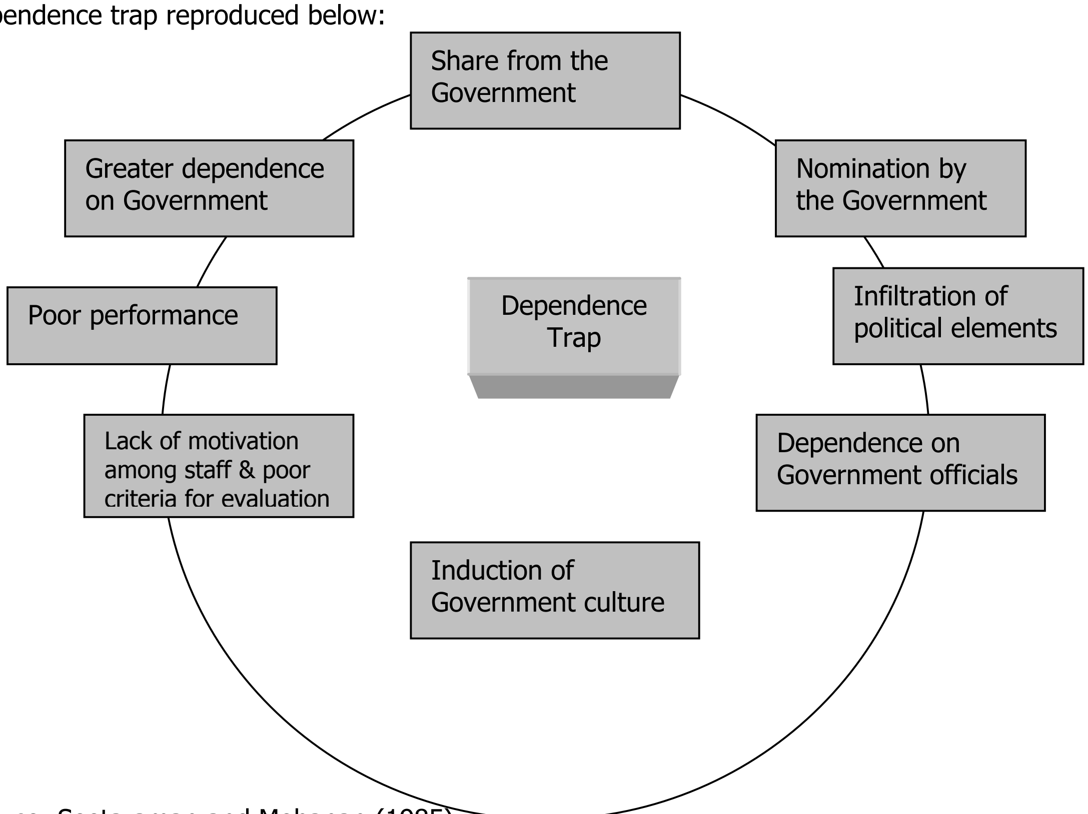
During this phase, the Desjardins movement grew rapidly while the Indian movement was in a state of stagnation and introspection. The next phasewas action packed – the State trying to rejuvenate co-ops in India and consolidation taking place in the movement in Quebec.

The Third Phase: 1950-1990

The third phase was action packed for the Indian co-op movement. The spotlight on rural financial co-ops was turned on with the All India Rural Credit Survey (AIRCS) which submitted its report in 1954. The committee recommended the participation of the State in the share capital of the co-op. In fact it went on to say that at least 51% of the share capital of all co-ops at all levels have to be held by the State (RBI 1954). In fact all the recommendations of the AIRCS stopped just short of the State running the co-ops. Significantly it recommended that there should be a common cadre of employees for all co-ops, the co-ops should have both credit and commodity functions, the co-ops should have a larger area of operation and to ensure this, there had to be compulsory amalgamation of co-ops. Later we shall see that the Desjardins movement also having problems of optimal size of the Caisses largely due to competition and we shall also see how different the response has been in integrating different Caisses.

In 1969 another committee was set up to review the progress made on the recommendations of the AIRCS. Ever since the AIRCS, all action by the State has been resulting in restructuring the co-op sector, while not addressing the basic issues of autonomy and self-help. The view of the State has been that the rural areas need to be supported with cheap credit from the State and if the institutions that were meant to deliver this failed, there either had to be a re-organisation or a new institution created. In brief, the initiated more studies and took more policy decisions. An illustrative list of the diversity of recommendations of different committees is given below. First it was the National Development Council resolution, and then the Narasimham committee, which was set up in 1975, resulted in floating Regional Rural Banks – an experiment in the public sector. The Hazari Committee recommended integration of the short-term structure with the long-term structure, though no implementation of its recommendations were seen. In 1976 the National Commission on Agriculture recommended setting up of Farmers' Service Co-operative Societies, this time with the active collaboration of the nationalised banks. The Bawa committee recommended setting up of Large co-ops in tribal areas (1971) and then under the Chairmanship of Sivaraman there was a Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development. The formation of NABARD was a result of the recommendations of this committee. (A more detailed review of the policy framework can be found in Sriram, 1992a).

It can be seen from the above description, there has been constant introspection about the performance of co-ops in the country. All this has resulted in too many interventions too constantly at the policy level. In addition, because of the financial involvement of the State, there has been interference at the operational level as well – leading to what is termed as a dependence trap reproduced below:



Source: Seetaraman and Mohanan (1985)

In 1989 the Government of India launched a populist scheme to write off the loans of farmers – an election promise on which the government had come to power. This scheme was almost the last nail in the ailing financial co-op system. But, already there were some signs of alternative viewpoints being put forth. The Khusro Committee (RBI 1989) for the first time talked about savings as a product, necessary for the co-ops. The committee also advocated that there should be business planning at the local level and strategies should be in place for co-ops to sustain themselves. To this extent, the committee also went ahead with recommending substantial non-member business could be done if it made business sense. In a sense, there were larger macro-economic changes on the anvil in the economy. The decade of 90s was a decade of structural adjustments and there were very strong signals of alternatives to the traditional co-ops emerging in the horizon.

During the same phase, the Desjardins movement went into large diversification in the corporate wing. Since it was not possible for the Caisses to carry out some specialised functions, the movement floated some corporate subsidiaries. They also used the acquisition route to become the most salient institution in Quebec. In the year 1960, there was a major diversification of the movement. The movement purchased some insurance and trust companies. In 1963 a new law was passed reconfirming the role of the confederation as a supportive and quasi-regulatory body.

By 1979, the movement had adopted the state-of-the-art technology and had taken to computerisation and passed on the benefits automation to the members. Desjardins was one of the few institutions in Quebec to adopt technology at such a fast pace. Also set up in 1979 was the Caisse Centrale Desjardins which operated as the movement's financial agent in the international markets. In 1981, the movement acquired the franchise of the VISA network and also set up its own network of automated teller machines (ATMs). As far as the Desjardins movement was concerned, this was a phase of rapid technological growth leading to centralisation of several functions including the database of the movement. The costs involved in managing technology made it imperative that in order to achieve economies the movement had to reduce its autonomy at the Caisse level and increase cohesiveness and standardisation across the movement to benefit from the fruits of technology. While these put the movement on a fast growth – possibly a growth that even its founder Alphonse Desjardins would not have imagined, the movement had to grapple with problems of internal structure and external competition.

With the spread of networks and technology, and economic growth there were other challenges to be attended to. Inflation in Quebec was low, interest rates on deposits were falling and members no longer preferred traditional savings products. There was a great deal of financial disintermediation with the corporates preferring to issue bonds rather than borrow loans. Fundamental changes were happening in the banking system that would affect the movement.

The Fourth Phase: 1990-2000

The last decade of this millennium was very significant for the Indian co-op movement and the future direction it might take. There was a silent parallel co-op movement picking up all over the country – which has started very much on the basic operating principles of what the Desjardins movement started off nearly a century ago. The operating principles are based on mutual aid – with thrift as a basis. Though the Grameen Bank model of Bangladesh largely inspires the movement, we find several autonomous and innovative institutions promoting this activity. The State has been cautious and supportive of this activity and for a change has not rushed into forming a committee to regulate this activity or effect basic structural changes. The initiative has largely come from the people and the State has, until now been playing its role – cautious and supportive. This is in keeping with the structural adjustment programme and the general philosophy that the State should not take an activist role in enterprises.

The most striking feature of this movement is that while most of the enterprises operate on the basic principles of co-operation and mutual aid as specified by the International Co-op Alliance in its 1994 congress, very few of them have formally registered themselves as "co-ops". Infact several of them operate as informal groups with just a bank account and some bookkeeping. The popularity and spread of this movement is very evident. For instance, When IRMA organised a conference on Rediscovering Co-operation in 1996, on the sub-theme of innovations in rural finance five out of the seven papers presented were on self-help groups. Of the other two, one talked about mainstream co-ops and another about BASIX, which for all practical purposes is registered, in the private sector.

As this issue of mutual savings and self-help style of co-operation is being keenly watched by the State and interested academicians, an interesting development has also happened in the mainstream co-op sector. The report of Brahm Prakash Committee on the Model co-op Act (GOI, 1991) suggested a radically different law which ensured autonomy to co-ops in the country thereby suggesting that the role of State should be reduced in the co-op sector. However, since co-operation is a State subject, it only led to having something recommendatory in nature and did not translate into concrete changes in the legislation at the ground level.

In 1995, The state of Andhra Pradesh passed a radically new law called The AP Mutually Aided Co-operative Societies Act to govern the new-generation co-ops. However, since there were several thousands of co-ops under the old act (around 50,000 in the state of Andhra Pradesh) – replacing the law would not turnaround these co-ops. It was therefore decided that the new Act would run concurrently with the old Act of 1956. The basic difference in the new act was that there would be no financial support forthcoming from the State for the co-ops registered under the new Act. The quid-pro-quo was greater autonomy. The old co-ops which did not have State participation in them had the option to convert into the new Act (Mathur, 1998). The response to the act has been guarded and positive. Several of the informal mutual-aid groups have come forward to register under the new Act. As of June 1998 there were a total of 1150 co-ops under the Act of which 729 were new registrations and the rest were conversions from the old Act. Of these 1150 a significant number (357 – 31%) were financial co-ops (Mathur, 1998).

Following the example of Andhra Pradesh there are several states that have either passed or considering passing a similar legislation to govern and regulate mutually aided co-ops. The states include Bihar, Karnataka, Goa, Madhya Pradesh, Orissa and Karnataka.

In essence we find that a new generation autonomous financial co-ops slowly emerging in India. These co-ops have not come with a grand design but are emerging to be salient in the lives of their members and being central to the needs of the members. All these co-ops seem to have the necessary ingredients of good self-governing organisations as enunciated by Shah (1996). They have been catalysed from outside, but largely are being governed based on local needs and local policies. In a nutshell, these co-ops are very much in the same state that the Desjardins Caisses were a century ago. However, the significant point to note is that the macro environment is different, the economy is different and the technological choices ahead of these co-ops are different. In the next section we shall discuss the strategies that these new generation co-ops could follow and how it would be different from what Desjardins did a century ago. Also since a century of experience in the field of co-operation is behind us, we hopefully know what not to do and should be in a position to quickly pick up lessons from the successful models.

During this decade, Desjardins movement went through a lot of churning due to its structure and its role and position in the market. Desjardins – by floating federations early in its history and centralising several developmental functions like technology, new product development and offering other financial services had taken an irreversible path. This was an appropriate strategy given the way the events unfolded in the last century. But would the same strategy be relevant if we were to reinvent the movement all over again? – Possibly not. In the following paragraphs, we shall deal the current status of Desjardins and its strategic choices in great detail in the context of the Canadian financial system. The learning from the Desjardins Movement would be of help when we discuss the strategies for the Indian co-op movement in the next section.

There are five large types of players in the Canadian financial system viz., chartered Banks, trust companies, life insurance companies, securities dealers and co-ops. Most of these institutions perform businesses, which are overlapping in nature, and with competition setting in, several of the players are now performing multiple functions. Desjardins, which is the fifth largest player in Canada and the largest in Quebec, is no exception. Over a period of time the movement has diversified into all financial services in order to be responsive to its membership. In fact, the movement went ahead and set up a complex structure of corporations when the Caisses were not permitted to carry out certain specialised activities. Also, it made sense to keep complex businesses like insurance away from the Caisse in a specialised company – for reasons of both complexity of operations and economies of scale.

While the Desjardins movement was set up against usury and for mutual aid of members it has now reached a complexity where the individual Caisses cannot be taken away as autonomous units from the system. This is because of the nature of embedding that the primaries have with the federal structures (see Annexure 1 for an organogram of the Desjardins movement, for a description and analysis of deeply and loosely embedded co-op systems, See Sriram, 1992b).

The major issue facing the Desjardins movement in the 90s is to tackle aggressive competition from the private sector players. The private sector players are selectively competing in certain niche areas, which puts the integrated operations of Desjardins movement under pressure. Also due to macro-economic factors – particularly low inflation and falling interest rates, the traditional instruments of savings, (which was the main source of resources for the movement) are no longer popular with the members. The members and the population in general are moving towards savings products that are more lucrative and higher on the risk profile such as the mutual funds. This puts the resource mobilisation activity of the movement under pressure – because now the movement has to compete with mainstream institutions in order to mobilise resources from the market.

The change is happening because of technological improvements and awareness improving. As of now 73% of Canada's population is below 50 years (Statistics Canada, 1999) and therefore more open to taking on risky instruments such as equity and mutual funds. There is a distinct trend that has been observed in the financial system of Quebec and Canada at large – there is more and more disintermediation by the financial institutions in terms of financial products. The populace prefers to place their funds directly in the capital market or through mutual funds. Similarly, corporates are directly borrowing in the form of bonds rather than seek loans from the banks. It is evident from two trends – income from personal financial services in the Canadian Banking System is falling and fee-based income increasing. Around 69% of the profits of the banking industry is coming from personal financial services the rest is coming from business banking products and insurance. In case of large scheduled banks the personal financial services income is lesser at 46% (McKinsey, 1998). In case of Desjardins, around 25% of the income of the system is coming from fees whereas the rest comes from interest earnings (Desjardins, 1999). So the customers in Canada are no longer paying for intermediation, but they are paying up for specific services offered by the banking system (McKinsey and Co, 1998). It is also important to note that specialised corporations are providing the new services demanded by the customers, even though the banking system is equipped to provide those services. Banks put together has a 25% share in the mutual fund business, while the market is dominated by three specialist fund managers.

This essentially has implication to the Desjardins movement, which still follows the principle of open membership and has not changed its entry share price from $5 ever since the movement began in 1900. Members (like all rational profit-maximising rational individuals) are having multiple outlets for their needs and go to the service provider who provides those niche services the best. The private sector banks are targeting the large and high net-worth customers and skimming them away from the co-op system. Due to costs, the transactions are getting more and more mechanised and impersonal. Over the past years, the percentage telephone transactions has increased from 1% 1995 to 10% 1998. Similarly, between 1990 and 1996, the number of paper transactions per year fell from 1.82 billion to 1.59 billion, while the electronic transactions increased from 0.24 billion to 1.06 billion (Bank of Montreal, 1997). A study by Booz Allen and Hamilton indicates that the transaction costs of Internet banking could be as low as $0.01 per transaction as against $1.07 for transactions where the customers are physically present.

Because of overall profitability and economies of carrying out electronic transactions there is pressure on the movement to shift more towards the operating style of private sector banking players. Less and less brick-and-mortar branches and more and more virtual transactions represent this style. This means that the members of the movement have to be encouraged **not** to come to the caisse for their regular transactions. They have to be encouraged to use the ATM counters or better still, the internet. Non only does this affect the relationship that the members had with the Caisse, but it also has been affecting the governance structure. While the younger and upwardly mobile members might see the Caisse as another outlet for banking services, they are important for the movement to have economies that will help them service the smaller clients. So, automation, cost cutting, downsizing and adoption of cutting edge technology makes immense sense.

On the flip side is a sociological aspect that needs to be examined in a great amount of detail. The movement has historically grown with deep involvement of members. The very fact that it emerged from small parishes and grew brick-by-brick in the early 20th century and the fact that even children are members of the movement indicates that it is a part of the lifestyle for the people of Quebec. Added to this is the fact that the movement is strongly Quebec based and has refused to grow significantly beyond Quebec makes willy nilly associated with the nationalistic feelings though the movement has never formally associated itself with the movement. It has become a mascot of the identity of Quebec. So it is natural that the older members see the Caisse as a part of their lifestyle rather than as a financial institution. While we do not have strong data to suggest this, we do have some anecdotal information, which gives such an indication.

In one of the Caisses we found that there was a strong resistance to use the ATM. The reason was that the members, apart from banking also come to have a chat with the person in the counter. They were willing to wait in the queue to carry out their transactions though the ATM counter was empty. Any attempt by the teller at the counter to suggest that the ATM be used is met with stiff resistance. In fact, we were told that on one such occasion a member retorted by saying that the teller would lose her job if all members started using the ATM! So this leads to a peculiar situation where the teller is expected to do something that affects her own livelihood!

Similar is the situation with the governance structure. Earlier, there used to be a credit committee that would recommend whether a member should be given a loan or not. This was useful because these members had personal knowledge of the finances of the members and their activities by virtue of being in the same village. Now with multiple sources for savings and increasing mobility, the credit committee members are possibly not privy to such information. Moreover, with computers and sophisticated credit scoring models, there is no premium on this superior knowledge. So the movement has done away with the credit committee, thereby reducing the involvement of the members in governance as well.

All this leads to the examination of the member-co-op relationship becoming more and more dispassionate like the Scandinavian consumer co-op movement. Gradually, as happened in Scandinavia, the difference between a co-op banking institution and other institutions will fade away. While the movement might continue to be financially strong, the spirit of co-operation might become a victim. But as long as the movement finds ways and means to keep its old and small members satisfied, the spirit of co-operation would continue.

It is not only in the co-op structure, but in the economy as a whole because of changes in the style of operation, smaller clients often do get a raw deal in the process. The McKinsey study points out that *"Canadian small businesses receive only a fair to slightly below fair services. The thorniest issue is access to credit given the absence of a more developed non-bank sub-prime* *lending market."* Therefore, the question of servicing the smaller client is going to remain one of the thorny issues for the movement. In the earlier days, due to intermediation between savings and loan products there was an element of cross-subsidisation available which could be effectively used to service the smaller clients.

Now the larger members going away to the private sector or demanding a better service. During a field visit to a semi-rural caisse populaire we were told that 6% of the members represent 80% of the deposits in the Caisse. This percentage needs to be handled carefully to ensure that the movement has the resources. Since the movement still works with the entire strata of the economy its bottomline cannot be as good as that of the corporate counterparts. The McKinsey report while recognising the strengths of the co-op movement also makes an observation that Caisses have faced less of a profit imperative than the private sector banks. This will no longer be true if the movement's liability structure shifts from deposits to institutional or international borrowing. In the international scene, the basis of costs of funds is largely dependent on the ratings that the institution gets. In case of the Desjardins movement the problem is that each of the Caisses are independent entities and are only linked through membership to the other corporates. Therefore the strength of the movement is spread out thin.

What is rated is one of the institutions within the structure – the Caisse Centrale. Infact the rating report by Standard and Poor's makes no bones about the Caisses being independent entities and therefore affecting the rating. Therefore, the report goes on to state that while the ratings are comparable to the big six scheduled banks, they might not be sustainable and puts the rating outlook as negative. Another factor very clearly put out in the rating report is the issue of profitability – which has taken a beating due to the large number of retail transactions unlike the corporate counterparts (Standard and Poor's 1999). However if one looks the movement as a whole, one finds that more and more income is coming from fee-based services which are not provided by the Caisse, but one of the arms of the movement. In 1998, this Income was more than 25% of the total income (Desjardins, 1999). Given this background Desjardins is exercising a few strategic re-engineering options which are discussed in the following section.

Synthesis: Strategy for the Indian Financial Co-ops in the New Millennium

While the paper indicates that the Indian financial co-ops are almost a century behind the Desjardins Movement as far as autonomous, self-reliant co-ops are concerned, it is fairly easy to catch up with the learning both from our own experiences as well as from successful experiments elsewhere.

The fact that technology is here to stay and would be making significant inroads into the Indian hinterland is beyond doubt. It is just a matter of time before the moffusil towns and the villages are wired up with Internet and ATMs. This is very much the way the telecom revolution has brought telephones to every nook and corner in the past decade and a half. On the positive side, we already are having a vibrant self-help movement that is working almost in all parts of the country. This movement has emerged on its own with thrift as the basis rather than a "dole" from the State. To provide the ambience for such mutual aid efforts, we have the State passing enabling legislations, with Andhra Pradesh providing the example. Now the field is all set for a vibrant co-op movement to re-emerge.

How would we design the new co-op network? Do we have some lessons to learn from the Desjardins movement? The answer for this largely lies in what we are looking for. Unlike the Desjardins movement, we do not have a single person or institutions promoting the mutual-aid groups. So, naturally there is diversity of thought ideology and operating systems. Moreover because of macro-economic reasons it might not make sense for the co-op network to enter into specialised business lines such as mutual funds or insurance.

If the Indian co-ops in this century were to be different and exclusive there are possibly a lot of lessons to be learnt both from our own experience and from that of Desjardins. Now Desjardins is in a point of no return as far as the design of the co-op structure is concerned. That is partly because the existing structure is deeply entrenched and also because it is largely successful. However, what is hindsight for Desjardins is foresight for the new generation Indian co-ops. We have tried with the structure similar to Desjardins enough.

In the new millennium, surely the size would matter and we are already seeing that mergers and consolidations are the order of the day. The recent announcement of Timesbank's merger with the HDFC Bank is a clear indication of what is happening with the financial structure – including those players who have strong fundamentals and are fairly recent in the market. Re-drawing the co-op movement on the basis of size and networking is going to be too complex and futile. With cutthroat competition, the private sector will take care of that chunk of the market anyway. What we would then need is a structure that caters to localised and neighbourhood needs. We would need a structure where the member plays a pivotal role and not technology. If there is any significant learning from the co-op banking structure of the west it is this.

In redesigning the co-ops if we deeply entrench them into deeply embedded structures, then it is going to be difficult to redesign it in any manner. For all practical purposes the Desjardins movement is like a huge apartment complex where any tinkering in the design would affect all the occupants, while individual flat owners cannot do anything for their own flat, without affecting the structure. While this design has its utility, we could look at alternate designs for the co-ops of the new millennium.

Ideally the co-ops at the village level should be trying to satisfy the needs locally through local resources. This is largely echoing the thoughts of Schumacher in Small is Beautiful. It would be ideal for the co-op network to get outside only for residual needs. Largely these residual needs would be in the form of sophisticated savings instruments and instruments of risk management. The advantage of the co-op being there is that there is bargaining power for the community through the co-op.

Apart from basic exchange transactions in the neighbourhood, the co-ops would assume the role of information providers. With the penetration of the internet, the role of intermediaries benefiting from arbitrage is going to diminish. Even the larger banks might focus their function on exchange of information with their clients than exchange of currency. We already see the trend of disintermediation happening in the west. The financial co-op then has to be designed to ensure that it has the capability of not only managing local level resources and exchanges, but also provide choices of complex financial products like a retail store. The role then would be taking the co-ops more and more towards fee-based activities rather than fund-based activities. If we could recognise this all important aspect early enough then, possibly we would laying a basis for a strong and purposive co-op movement to emerge in the new millennium.

We however cannot suggest the same strategy to Desjardins. One of the problems of Desjardins is that the Caisses are already so embedded in the federal structure that it is virtually impossible for a Caisse to sever from the structure and survive. The information management is centralised and it is necessary to be so due to sophisticated instruments being offered to members – such as credit cards and the facility of having inter-caisse transactions. It is not possible for a Caisse now to say that it would like to be independent and have the choice of networking with any other player in the Canadian financial scene. When this becomes a reality then the rules of the market place start dictating terms – and it would be more technocratically run rather than democratically. Infact it becomes inevitable for democracy to vote for technology! The danger is that the member becomes a customer and there is every possibility smaller member might be short changed.

Since the Indian co-op movement still has a choice, it might be prudent that all sophisticated products and services be out-sourced with the village level co-op operating as an interface. This would not only make management of technology and operations simpler at the village level but would turn out to be more responsive to members and more member controlled.

Synthesis: Strategy for the Desjardins Movement in the New Millennium

Given the background of developments in Quebec and Canada, what should Desjardins be doing? Desjardins has no other option but to mimic its corporate counterparts and get its costs under control. To this effect, Desjardins movement has already started consultations and downsizing. But the task is difficult and time consuming. This has to be done through a process of consultations. The first level decision is to do away with regional federations and make the whole structure two-tier instead of three-tier. This process of re-engineering is already underway. From a consolidation point of view – it would be better for the movement to ultimately emerge as a single co-op and convert all Caisses into branches. This suggestion would sound outrageous at this point in time – but with most of the data network being centralised, the credit scoring systems being centralised, the data mining and analysis functions being centralised there is but little choice for the movement. Also the services being sought by members such as insurance, mutual funds and personal asset management is done better done with economies of scale.

In the process some of the Caisses might want to have a very localised presence and secede from the parent and offer services which are exclusive to their members. This has tremendous implications for employee relationship as well as member participation and control. The danger in consolidation being that the co-op might not have anything "exclusive" to offer from the other players in the market and therefore might not be seen as any different from the banks. That is what happened to the Scandinavian consumer co-op movement.

We have already seen in Desjardins that there has been a lot of standardisation implemented across Caisses and it is going to increase as time goes by. More and more routine credit decisions are taken using centrally developed credit scoring model. The 1998 annual report lays a thrust on a common visual identity for all Caisses. The role of the officers in the Caisses is become more and more oriented towards investment counsellors and there is a clear plan for consolidation of Caisses and reducing the number of Caisses. In the year ending 1998, the number of Caisses reduced from 1275 to 1222. The positive thing in the Desjardins movement is that the process of consolidation and amalgamation is happening in a consultative and collaborative atmosphere and not in a manner that would affect the functioning of both the Caisses. This is unlike what happened as a fall out of the AIRCS in India in the decade of 1950s where co-ops were compulsorily amended. Obviously, the process is bound to be slow.

All these measures while making the movement very competitive with the big six banks of Canada have significant implications for member-involvement and member-control. On the one hand the population of Canada is getting younger – with 70% of the population being below 50, and 33% of the population in the age group of 25-45 and another 11% in the age group of 46-55 (Statistics Canada, 1999). All this indicates that there is a new generation that is demanding services from the movement and this generation might not have the passion to identify with the movement. The participation in the annual meetings and elections have been below 5% across the board – which also is a good enough indication that the members see themselves more as customers than as members.

However, there might be innovative ways of retaining the member interest in the movement. With the rapid penetration of Internet into Canadian homes, there might be a new way of discussion and democracy that might operate which might change the way the co-op movement is governed in Quebec. Having seen the innovativeness of the movement, this might not be a far cry.

Chronographic Summary of the Indian Co-ops and the Desjardins Movement:

Indian Financial Co-ops	Desjardins Movement, Quebec
Phase I • 1891 – The earliest co-ops established. • 1904 – The first co-op societies Act passed by the State. • 1915 – Maclagan committee advocates one-village one- co-op concept. • 1928 – Royal commission on Agriculture advocates expansion of rural credit with State Patronage.	**Phase I** • 1900 - The first Caisse Populaire established in the city of Levis. • 1904 – Only three more Caisses promoted. • 1906 – Quebec passes legislation recognising co-op form of organisation after several abortive attempts. • 1920 – 140 Caisses promoted with 30,000 members. Alphonse Desjardins passes away. • The first regional federation was set up.
Phase II • 1945 – The agricultural finance sub-committee submits its report – recommends liquidation of frozen assets of members. The first blow to credit discipline. • 1945 – Co-operative planning committee advocates state protection to co-op sector from private competition.	**Phase II** • 1932 – several regional federations set up. All these federations confederate under a provincial federation. • Self- regulation: Role of inspection handed over to the provincial federation. • 1944 – Number of Caisses increased to 900, membership to 3 Lakh and asset base $92 M. • 1944 – Self-regulation: The security fund launched to protect the members funds and Caisses from adverse circumstances. • 1948 – foray into insurance by setting up Desjardins Life.
Phase III • 1954 – All India Rural Credit Survey submits report. Advocates majority participation by the State (51% share capital) in co-ops at all levels; recommends a common cadre for employees of co-ops. • 1975 – The concept of regional rural banks advocated to overcome the failure of co-ops. • 1975 – Hazari committee recommends the integration of short-term and long-term credit structure. • 1976 – National Commission on Agriculture experiments with a new form of co-op – The Farmers' Service Co-operative, this time, with the active collaboration of the commercial banks. • 1982 National Bank for Agriculture and Rural Development set up. • 1989 – The first formal loan waiver announced seriously impacting the credit discipline and the feasibility of the co-op institutions.	**Phase III** • 1960 – Some Insurance and Trust companies acquired by the movement. More financial institutions floated to serve members. • 1963 – Law passed devolving some powers to the confederation and recognising it as a quasi-regulatory body. • 1979 – Major moves towards computerisation and automation and centralised data processing. • 1979 – Caisse Centrale Desjardins established – enabling the movement to borrow from international markets. • 1981 – Franchise with Visa network – series of ATMs set up. • The general trend of financial disintermediation in the Canadian Banking sector also begins at around this time.

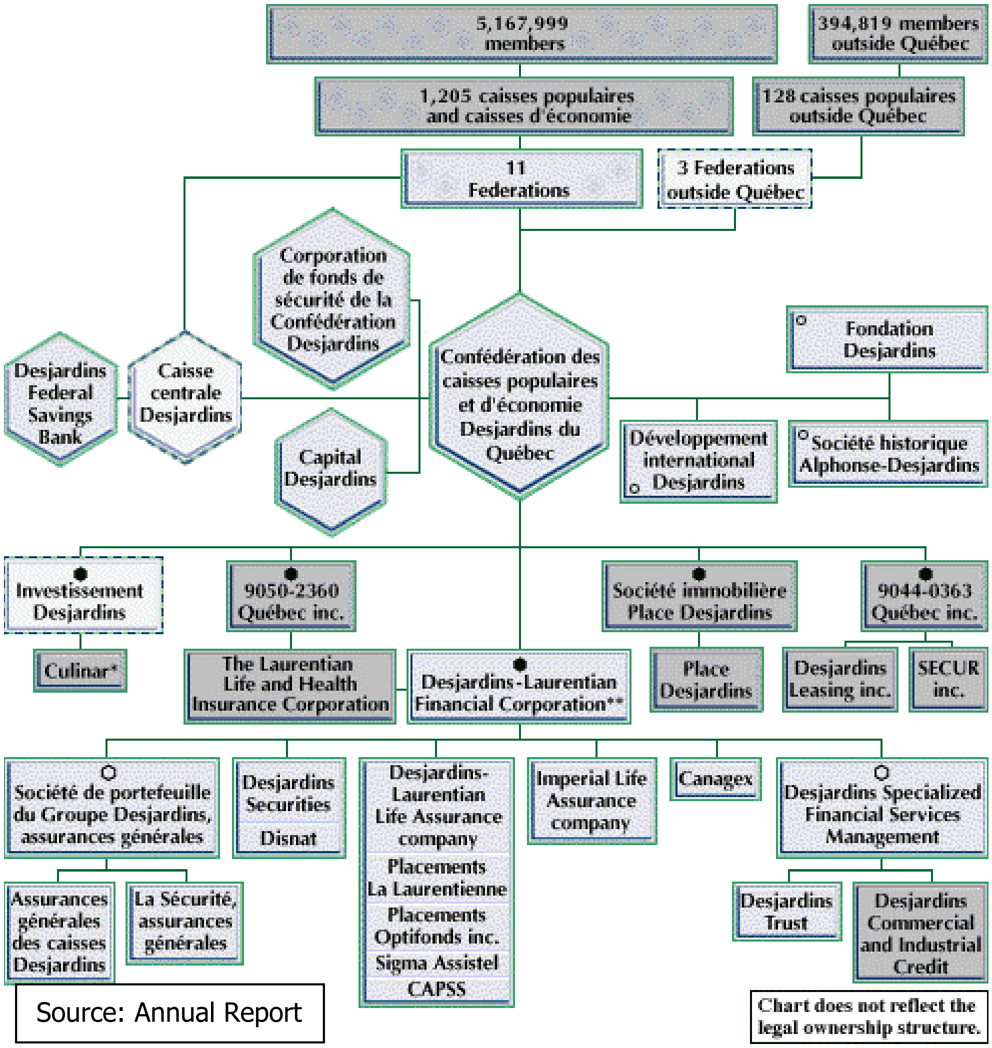
Phase IV:	Phase IV:
• Economic liberalization takes off. • Khusro Committee (1989) recommends a more market-oriented approach for co-ops. • 1991 – Brahm Prakash committee comes out with the Model co-op societies Act, with lesser State involvement. • 1995 – The Government of Andhra Pradesh passes the new Mutually Aided Co-operative Societies Act, granting autonomy to co-ops. • Several States follow suit and pass the new act. • Self-help thrift and credit groups start cropping up all over the country. Most of these groups are catalysed by poeples' NGOs without the involvement of the state. Several self-help groups in Andhra Pradesh register under the new act.	• Stiff competition from private sector for the movement. The trend of disintermediation leads to interrospection. • Member transactions with the Caisse moving towards electronic transactions. • Credit committees disbanded – most decisions based on database and credit scoring models. • Restructuring process set in. The regional federations to be gradually disbanded in the process of cost cutting and reengineering. The movement to eventually be a two-tier structure. • Amalgamation and integration of Caisses, thus reducing the total number of brick-and-mortar outlets. • Older members unwilling to shift to electronic transactions. Pressure mounting on retaining high net-worth members as they provide a significant amount of business.
Strategies for Future • Create small neighbourhood co-ops, which will satisfy the local needs. • Act as a retail outlet for complex financial services to be offered by other financial institutions. • Recognise the trend towards financial disintermediation and take up only fee-based activities.	**Strategies for Future** • Integrate further and possibly convert the Caisses into branches of a single federation. • Use technology innovatively for further member involvement – both in the regular transactions and in the democratic process of the movement. • Remodel the credit officers as personal financial counsellors and ensure reward systems for achieving both financial targets and working with smaller clients.

Concluding Notes

As we enter the new Millennium, we are entering on a positive note. The State has recognised the need to keep away from economic activities. There is a parallel groundswell in the mutual aid groups while the traditional co-ops are dying their natural death. The beauty of the new generation co-ops is that they have not emerged with a grand design from the top, but from the needs and a robust design at the ground level. To this extent, the new-generation co-ops hold out a great deal of promise in being significant players in the local markets. The mainstream has to recognise the benefit of dealing with the local structures than with individual clients from their own transaction costs point of view. The effort of NABARD in linking the informal groups with the formal commercial banks is a step in the right direction.

If the regulatory environment in other states encourages the mutual-aid groups to register as new generation co-ops on the lines of Andhra Pradesh we would find a lot of local level rejuvenation happening in the Indian Financial Co-ops. Surely if we have strong financial co-ops, that is the best bet for getting economic activities on the rails.

Annexure 1



Source: Annual Report

References

Bank of Montreal (1997). **Policy Alternatives for Canadian Financial Services,** Montreal: Bank of Montreal.

Desjardins (1999): **Desjardins is on the move – 1998 Annual Report,** Levis: Desjardins.

Government of India (1991). **Report of the Committee on Model Co-operative Act,** New Delhi: Planning Commission, Government of India.

Hough, Eleanor.M (1960): **Co-operative Movement in India,** Delhi: Oxford University Press.

Mathur, Lalith (1998): **A Challenging Legal Framework for Co-operatives: The Experience from Andhra Pradesh,** Paper presented at the Second SAARC Consultation on Co-operative Policy, Hyderabad: Co-operative Development Foundation.

McKinsey and Co (1998) **The Changing Landscape of Canadian Financial Services: New Forces, New Competitors, New Choices,** Ottawa: Taskforce on the Future of Canadian Financial Services Sector.

Müller, JO (1986): **Early Savings and Credit Co-operatives on the Basis of Self-Help to Combat Poverty and dependence in Germany**. Bonn: Paper presented at the Workshop on the Importance of Savings for Fighting against Poverty by Self-help.

Munkner, Hans H. (1971). **New trends in Co-operative Law of English Speaking Countries of Africa,** Paper No.4, Marburg: Institute for Co-operation in developing countries.

NABARD (1999): **Overview of the Rural Credit Structure**, Website of NABARD, at http://www.nabard.org/

RBI (1952). **Report of the Committee on Co-operation in India, 1915.** Bombay: Reserve Bank of India.

RBI (1954) **All India Rural Credit Survey – Report of the Committee of Direction Volume II** Bombay: Reserve Bank of India.

RBI (1965). **Report of the Agricultural Finance Sub-Committee, 1945.** Bombay: Reserve Bank of India.

RBI (1989). **A Review of the Agricultural Credit System in India: Report of the Agricultural Credit Review Committee (Khusro Committee).** Bombay: Reserve Bank of India.

RCA (1979). **Report of the Royal Commission on Agriculture in India, 1928.** Government of India, Bombay (Reprint). New Delhi: Agricole Publishing Academy.

Seetharaman, SP and N Mohanan (1985). *Organisation Building in Co-operatives – A Framework* in **Co-operatives: In the Clash Between Member Participation, Organisational Development and Bureaucratic Tendencies,** edited by E.Dulfer and Walter Hamm. London:Quiller Press.

Shah, Tushaar (1996) **Catalysing Co-operation: Design of Self-governing Organisations,** New Delhi: Sage Publications.

Sriram M S (1992a). **A Study of the Indicators of Sickness in Rural Co-operatives.** (Unpublished Fellowship Dissertation), Bangalore: Indian Institute of Management.

Sriram M S (1992b). **Achieving Mutuality: Businses Planning Processes in a Loosely Embedded Federal Structure.** Paper presented at the Symposium on Management of Co-operatives, Anand: Institute of Rural Management.

Sriram M S (1999). **Financial Co-operatives in Quebec, Canada: A Study of the Desjardins Movement,** Hyderabad: Basix (mimeo).

Standard and Poor's (1999) **Rating Report of Caisse Centrale Desjardins du Quebec,** Toronto: Standard and Poor's (personal communication).

Statistics Canada (1999). **CANSIM Matrices.** Ottawa: Government of Canada.