The Challenge

Communities throughout the world are searching for ways to bring about local and regional economic development, in the face of pressures consequent in part on globalisation. Experience indicates that one answer is the use of credit unions to mobilise local and regional capital to expand existing businesses and create new ones. It is important to learn from success stories such as of Québec's Desjardins credit union federation and the great complex of industrial, retail, financial, service and support co-operatives - now the Mondragon Co-operative Corporation (MCC) - at Mondragon in the Basque region of Spain. The challenge is to adapt what Mondragon and Desjardins have to offer in the light of local conditions and requirements. The danger is that the credit union movement will be overtaken by demutualisation before its capacity to foster local and regional economic development has begun to be properly understood or applied.

Mutualism

The strength of credit unions is in their character as mutualist bodies and their adherence to mutualist values and principles. Mutualism is about self-help - about people helping themselves by helping one another. What mutualist bodies - bodies such as mutual life assurance societies, permanent building societies, friendly societies and co-operatives - also have in common with one another is that they are almost always a response to urgent community needs. For example, the Rochdale Pioneers - the twenty-eight poor cotton weavers who established their co-operativagon. The MCC Corporate Centtreter in 1844 - were responding to an urgent community need for affordable household requisites such as food and fuel.

Credit co-operatives were a response to the need for affordable carry-on loans for smallholder farmers and later for affordable consumer finance. Friendly societies were initially a response to the need for funeral benefits, and, later, for unemployment benefits, sickness benefits and medical and hospital care. Access to affordable life assurance was offered by mutual life assurance societies, as was access to affordable home loans by building societies. Agricultural processing and marketing co-operatives met a pressing
need on the part of farmers to capture value added to their produce beyond the farm gate. Worker co-operatives responded to the need on the part of workers for secure employment by enabling them to own their workplaces and jobs. Trade unions were originally mutualist bodies or co-operatives formed by employees in response to a pressing need to obtain a better working conditions and a just price for their labour.

Co-operative Services Inc

What is required now of credit unions and other mutualist bodies is an acceptance that they are not chained to the provision of services for which the original justification no longer exists or has become less pressing, but rather should see themselves as pools of community capital which can be re-tasked in the face of new needs on the part of those for whose interests they are trustees.

That even radically root and branch re-invention is not beyond the will or wit of mutualist bodies is richly evident from the example of a notable US co-operative, Co-operative Services Inc. in Detroit. Co-operative Services Inc. was formed in the early 1940s in response to an urgent local need for affordable, hygienic household milk deliveries. When the corporate dairies moved in with a comparable service at a comparable price, the co-operative re-invented itself, so that the community capital it had accumulated was re-tasked to meeting the need for affordable eye testing and spectacles. Following the arrival of the optometrical services corporations, the co-operative re-tasked its capital again, to meet the need for affordable accommodation and support services for older people. It now operates large apartment complexes - self-governing co-operatives within the over-arching structure of the parent body - in several states.

A "New Mutualism" is now likewise called for, such as enables credit unions to re-invent and re-position themselves to respond as effectively in the future to the need on the part of their members for economic development and jobs as in the past to the need for personal loans such as for washing machines, refrigerators and cars. This does not mean that credit unions should give up their current role as providers of consumer and housing loans, but that they should widen their horizons to encompass activities in which in most instances they have not previously been involved. Is it asking too much of Australia's credit unions that they should show as much vision and vigour in re-inventing themselves as a Co-operative Services Inc, a Mondragon or a Desjardins?

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 1917.¹ 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.²

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

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¹ For the contribution of social Catholicism to mutualist thought and practice, see for example Mathews R. 1999, *Jobs of Our Own: Building a Stakeholder Society*, Sydney, Pluto Press (Australia) and London, Comerford and Miller.

² 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 et d’economie Desjardins du Québec, M. Guy Cameron, whose assistance I gratefully acknowledge.
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 preferred financial institution of most Québécois, as well as their natural partner in collective projects at the local, regional and provincial levels".\textsuperscript{3}

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 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 at de Paiement des Services de Sante.

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 who will become a member of the board of the

\textsuperscript{3} Le Mouvement des Caisses Desjardins, \textit{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.
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". What was conceived originally by Alphonse Desjardins as a means of combating usury 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

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their growth. The Fonds d'investissement Desjardins du Lac-St-Jean makes investments of $50,000 to $500,000.\(^5\)

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 businesses, many of which were said in the Annual Report to be "just starting up and looked very promising".\(^6\)

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.\(^7\)

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.\(^8\) ... The social and economic disturbances currently affecting almost society around the


\(^6\) Le Mouvement des Caisses Desjardins, 1999 Annual Report p. 102.

\(^7\) Ibid, p. 32.

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".9

**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".10 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 triumphant success of the co-operatives which embody it is his enduring memorial.11

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

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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%. 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 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

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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".\(^\text{13}\) The upshot is - among other things - a reduction in the agency costs the co-operatives incur, and a corresponding increase in their competitive advantage.\(^\text{14}\)

Secondly, the primary co-operatives are serviced on a mutualist basis by a unique system of secondary support co-operatives. Arizmendiarrieta 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-

\(^{13}\) Mongelos J. 1994, as quoted in Parry J.N. "Mondragon Pushed to the Peak of Success", European, 28/10/94, p. 12.

\(^{14}\) For agency costs and competitive advantage in worker-owned businesses, see Mathews, 1999, pp. 10-12.
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.
Demutualisation

What then are the lessons of Desjardins and Mondragon for countries such as Australia, the US and the UK? Where both the Desjardins and Mondragon credit unions differ most radically from other credit unions is in their constant re-inventing of their structures and objectives in response to changing needs and circumstances. Credit unions and credit union movements other than Desjardins and Mondragon mostly are still offering much the same services as at their inception, and accordingly are referred to as "frozen" co-operatives.

Australia is a case in point. While there have been financial co-operatives in Australia for more than a century, the credit union movement in its modern form had its inception in the early 1950s. Couples who were marrying at the time could get home loans at fixed interest rates of around 3% over thirty year periods. However, furniture and other consumer durables such as refrigerators and washing machines had to be bought on hire purchase at interest rates which were exorbitantly higher. What followed was that families in outer-suburban Catholic parishes got together around card tables after Mass, pooled such savings as they had and took turns to borrow from the pool at interest rates which they could afford.

When their neighbours of other faiths or none at all saw what was going on and wanted to join in, what had initially been parish credit unions became community credit unions. Later again, trade unions recognised that the workplaces where their members were employed were also communities, and industrial credit unions began to be established. So much have Australia’s credit unions been seen to be a good idea, that they currently have around three million members - one in every six of the nation's population - and assets of more than $21 billion.

Even so, for all the apparent strength of the credit unions, their position is precarious. Affordable personal loans are now available from a wide range of other financial intermediaries. By and large the interest rates credit unions pay on members' deposits is no higher than those of other intermediaries, nor are their loan rates lower. In addition, research by the Credit Union Services Corporation of Australia (CUSCAL) - the peak body of the credit union movement - shows plainly that members of credit unions likewise no longer understand or value their mutuality, and would for the most part

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15 For the history of credit unions in Australia, see Lewis G. 1996, People Before Profit: the Credit Union Movement in Australia, Kent Town, South Australia, Wakefield Press.
readily acquiesce in their demutualisation if adequate inducements were to be offered.

What follows from all this is that, if the prospect of new worlds to conquer is insufficiently attractive to prompt the credit unions to re-invent themselves, then the threat of demutualisation should do so. That the writing is on the wall is evident from the fact that, in recent years, most of Australia's permanent building societies and almost all its mutual assurance societies have succumbed to demutualisation. The latest victim has been the multi-billion dollar mutualist insurance arm of the National Roads and Motorists' Association (NRMA). The demutualisation of NRMA Insurance was supported by 82% of its members despite its outstanding success as a mutual, despite the disastrous consequences of earlier insurance mutual demutualisations and despite expert advice against the proposed demutualisation from consultants engaged by the NRMA board.\(^\text{16}\)

**The Sunstate Credit Union**

The cautionary message of the building and insurance society demutualisations experience is reinforced by Australia's first and to date only demutualisation of a credit union - the demutualisation of the Sunstate Credit Union in 1997. As at 30 June, 1997, Sunstate had 19,358 shareholders and a further 2,725 depositing members without shares. The reserves of the credit union - its net assets - totalled $8.036 million. The credit union's capital adequacy ratio of 12.9% was comfortably above the minimum prudential requirement. Operating profit in 1998 was expected to increase over 1997 by 18% or $65,000, from $371,000 to $436,000.\(^\text{17}\)

Sunstate was a viable credit union, which could either have remained in business on its own, or preserved its mutualist character through a merger with another credit union. Alternatively, if the directors believed in good faith that the credit union was not viable, they could in a worst case scenario have recommended that it be wound up, and its assets shared equally among its members in a conformity of sorts with mutualist principles.

\(^{16}\) See Mathews R., 1999, "NRMA Insurance Demutualisation" in *Journal of Australian Political Economy*, Number 44, December 1999, p. 113. The demutualised Colonial Mutual Life Society has been acquired by the National Bank as has the demutualised National Mutual Life Society by the French insurance giant AXA. The demutualised Australian Mutual Provident Society (AMP) has incurred losses of around $1.5 billion through a botched takeover of the privatised New South Wales Government Insurance Office (GIO), with a corresponding precipitous fall in the price of its shares and speculation that it too is likely to be targeted for a takeover.

Instead, the Sunstate directors made no attempt to defend the mutualist character of their credit union or retain the benefits of mutualism for its members. Far from recommending an amalgamation with another credit union, the Board's recommendation was that Sunstate should be merged with the First Provincial Building Society which is a publicly listed company. Far from ensuring that the assets of the credit union were distributed equally among its members, the Board recommended a grossly inequitable distribution.

Of 4 million shares in the First Provincial Building Society offered to members of Sunstate, 200,000 were reserved for directors and 200,000 for employees. The effect was to make directors eligible for benefits roughly 300 times greater than those likely to be available to other members of the credit union. Employees also were made eligible for greater benefits than most members were likely to receive. Twenty-five thousand shares are reserved for the former General Manager of the credit union, who also has an entitlement to take up such further unreserved shares as a may turn out to be available.

Most of all, members who did not wish or could not afford to take up their entitlement to shares - or were not qualifying members - were effectively denied their interest in the assets of the credit union, and received nothing whatsoever in return. Estimates at the time of the amalgamation suggest that 86% of the members of Sunstate were unlikely to receive anything in exchange for forfeiting their entitlements to its reserves, and only 14% to benefit.\(^\text{18}\) That no regulatory objection to the merger was offered reflects poorly on the regulators. That the court did not feel able to intervene reflects poorly on laws and the legislature.\(^\text{19}\) That individual directors instigated or were party to the merger brings into question whether they at any stage properly understood mutualism or were genuinely committed to mutualist principles.

Given that six of the seven directors of Sunstate had held office for periods in excess of twenty years and the seventh director for ten years, the question arises: on whom can credit unions rely to protect their mutualism? Would not the founders of Australian credit unionism literally be turning in their graves if what has happened at Sunstate were to be known to them?

\(^{18}\) Figures from Loughlin G. 1997, "Sunstate Credit Union/First Provincial Building Society - Transfer of Engagements", in Credit Union Services Corporation Bulletin No. 311/97.

\(^{19}\) Herbert Stanley Rolfe and Ors v Sunstate Credit Union Limited and Ors (1997) 1109 FCA. (23 October 1997)
Anecdotal evidence suggests that further credit unions are already in the sights of predatory demutualisers and the corporate law, accounting and public relations interests which benefit financially on so massive a scale from favouring and facilitating demutualisations.\textsuperscript{20} As CUSCAL’s general manager of movement development and business services, Graham Loughlin, sees the situation: "I'd be surprised if some of Australia’s regional banks weren't already identifying larger credit unions whose market niche aligned with their own development plans".\textsuperscript{21}

**Credit Unions and Government**

What then is the remedy? How can Australia's credit unions be enabled to rise to the challenge of becoming drivers of the local and regional economic development and creation of jobs which so many of their members need so urgently? What pre-conditions are required to stir the credit unions out of their current torpor? How can they enabled to fend off the unwelcome attentions of would-be demutualisers and move forward into a productive future which fully reflects the promise of their inception and the hopes of their founders?

In addressing these key questions, it is necessary first to also consider the no less vital question of the role of government in regard to credit unions and credit unionism. What is needed is a recognition from government - preferably explicit - that credit unionism is about enabling ordinary people and communities to engage in self-help, and thereby is entitled to special consideration. 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 Administration\textsuperscript{22} - the more pressing requirement, in the

\textsuperscript{20} Fees for consultancies and other services for the demutualisation of NRMA Insurance are reported to have totalled $107 million. *Sydney Morning Herald* 19/2/00. The CEO of the Australian Mutual Provident Society (AMP) when it demutualised in 1997, Mr George Trumbull, is reported to have been allocated free shares to the value of $10 million over a three-year period following the demutualisation, together with a base yearly salary of $2.7 million. Subsequent reports have assessed the shares as having a substantially higher value, and Mr Trumbull received a severance package of $14 million when his contract was terminated prematurely in August 1999. *Age* 8/10/97 and 15/4/00.


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, cramping the development of current credit unions or inhibiting them from striking out in new directions in response to new needs, and obliging communities which have been deserted by the major commercial banks to establish community banks as a second-best substitute for credit unions.\textsuperscript{23} 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.

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, namely that 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.

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. 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

\textsuperscript{23} So restrictive has been the Australian Financial Institutions Commission legislation that only three new credit unions have been formed in the decade since its enactment. The Bendigo Bank - a former building society - has established community banks in conjunction with some nineteen local communities in Victoria, New South Wales, South Australia and Western Australia, and received inquiries from another 500 communities. Participating communities are required to raise $250,000 in upfront capital and meet the branch running costs, and revenue is divided between the bank and the community on an agreed basis.
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.

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. CUSCAL has for many 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.24

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 in the Investissement Desjardins (ID) mould, specifically tasked to undertake funding for local and regional economic development. 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 more effectively partner the regional development funds and pooled development funds which so largely focus on equity. As has been seen, ID 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 was a specific commitment - as in Mondragon - to helping businesses which adopted mutualist or employee-ownership structures, with corresponding reductions in their agency costs and increases in their competitive advantage.25

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24 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.

25 Ideally, the maximum option for change would be accompanied by further statutory measures to facilitate mutualist and proto-mutualist structures and practices. For example changes are required in order to bring about uniform co-operatives legislation throughout Australia, and thereby enable commercial co-operatives to raise capital and trade freely across State and Territory borders. Proper employee share ownership legislation is required as a safeguard against - among other things - the abuse of Employee Share Ownership Plans (ESOPs) as a mechanism for tax avoidance or extravagantly benefiting CEOs and other senior managers. Where employees are encouraged to accept share options in lieu in part of salary,
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. 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 Emelia Romagna region of Italy might be preferred.

None of this means that the credit unions should seek to replicate Mondragon, but rather that they should learn from their examples and apply the lessons in the light of their own needs and circumstances.26 In Australia as in Mondragon, the guiding principle should be in Arizemendiarieta's much-quoted phrase: "We build the road as we travel".27

Conclusion

What emerges from the foregoing is less answers than a series of questions. Are Australians able to recognise in their credit unions a means of achieving local and regional economic development such as has been achieved by the Desjardins credit unions and the MCC? If so, will the currently silent majority of credit union members now speak out in favour of a re-invention of their credit unions such as would enable them to respond to the need for local and regional economic development and jobs? Will others who do not currently belong to credit unions join them in order to see that a re-tasking of their capital to foster economic development now takes place.

Is there within the community a genuine commitment to local and regional economic development such as will enable a stand to now be taken against further demutualisation and so ensure that the opportunity for re-inventing mutualism and re-tasking mutualist capital is retained? Not least, is there on the part of Australian political parties and legislators a recognition of the value of mutualist bodies such as would lead them to remove the legislative constraints which currently hold back mutualism from contributing to the well-being of the community on as large a scale as is within its capacity?

Further Reading

there should be a statutory requirement for at least as full disclosure of the conditions and risks as in other securities transactions.

26 Nor, for that matter, replicate the "new Mondragon" - El Grup Empresarial Cooperativ Valencia (GECV) - which is currently expanding around Valencia in the Catalan region of Spain and thereby refuting those who argue that Mondragon is a one-off quirk of Basque history and culture. See MacLeod 1997, Chapter 6.

27 See Morrison R. 1991, We Build the Road as We Travel, Philadelphia, New Society Press.


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