

Financing systems-level development with micro-level cooperative and cooperative-support structures

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Conventional discussions of 'finance for development' focus almost entirely on the mobilization and utilization of external resources, paying little attention to building locally-rooted saving and investment capacity not dependent on aid or conventional FDI. Although largely ignored in current development policy discussion, Finland and Quebec (1902 and after) and the Basque region of Spain (after 1956) make the same point as the commonly cited post-World War II success stories of Japan, South Korea, Singapore and the People's Republic of China -- that a savings and investment mechanism embedded at the local level makes self-financed growth possible in even the poorest populations.

This is a promising space for development of localized financial systems based on credit co-operatives. The advantages of credit co-operatives in mobilizing and financing local economic development contrast with the disadvantages of both conventional micro-credit and other recent fashions in 'market-oriented development finance'. Yet cooperatives have nearly disappeared from economic development discourse and are never considered as possible tools of systems-level transformation.

The common organizational/institutional core of Iberian, Finnish, Quebecois and PRC experience in triggering local growth shows that success need not be explained by culture or special circumstances. All exhibit the *local developmental state* approach incorporating relationships between locally-owned banks, small enterprises of various ownership types, and local government (province/city/town). There is clear economic logic to why such systems work, but they cannot emerge unless active policy measures and structures are put in place to start the initial forward movement. Energy efficiency investments and social service cooperatives are initiatives that could succeed in many places through such a cooperative-local government alliance.

1. Proven Structural Remedies: Financing Development at the Local Level

Despite the evident success the kind of institutional mixture and continuing expansion of locally financed cooperatives in countries such as Finland, the development lessons are ignored. Kalmi (2005) offers a 'history of economic thought' explanation of the disappearance of cooperatives from professional economics literature and suggests structural reasons for their invisibility in the surrounding development literature. I add and underline the cold-war and 'end of history' dynamics, magnified by the particularly poorly timed crises in Yugoslavia and the Basque region. The former was a purely political event which proved to have no available cure or recovery path, while the latter was one of a string of successful 'rolling' institutional repairs but was treated as a mortal wound. Both came exactly at the time that the Gorbachev revolution opened the door to consideration of institutional alternatives but no cooperative-centered model asked for an interview.

In Yugoslavia, imperfect as the worker self-management system was, and properly subject to all sorts of criticisms from both the cooperative purist and neo-classical purist points of view, it was still richly suggestive. It encompassed a variety of ownership forms and in some sense 'worked' as a mixed system. The work force did

effectively own at least usage rights to capital and this ownership was real enough to require the awkward nationalization of this social property in order to 'properly privatize' it. In both existing and abstract form the self-management system vaporized as a point of reference at that point in the post-Yugoslav transition.

Trouble in Mondragón during the 1980s played a parallel and equally important role in allowing the cooperative path to completely disappear at a time when alternatives were badly needed in the former Soviet Union, parts of Eastern and Central Europe and (even today) in much of the developing world. The retirement of the founding generation of worker-owners (and lump-sum withdrawal of their capital account accumulations) briefly appeared to show a fatal weakness at the core of the Mondragón system. Although quickly remedied by payout regime rule changes, with growth and dynamism quickly returning, this 1980s episode cast a cloud of imperfection over what had been a widely praised and admired performance. This worked in the same psycho-economic way that the fantasy tendency of the pure self-management model to under-invest delegitimized it in the eyes of neo-classically trained economists, despite objective tendencies to go too far in the other direction in practice. If not perfect, then not worthy of attention. The standard of perfection is of course the neo-classical ideal that the free-market model itself does not pass, once the various realities of transactions costs and information asymmetries are considered (Stiglitz 2000).

A return to thinking of the cooperative approach as a *systems alternative* is long overdue, understanding such a system to be built around cooperative institutions but not 100% cooperative. This approach fits a variety of different situations and cultural contexts, wherever poverty and lack of development are kept in place by the absence of locally-rooted development stimuli, in particular of locally-controlled mechanisms for collecting and using locally-generated savings to fuel local economic development. The unifying feature of the successful cases identified here is the support of local-level governmental authorities. In all four cases successful systems emerged out of a government decision to support a locally self-financed development as an anti-poverty and/or economic development strategy. It was provincial policy in the first three cases and national policy in the case of PRC, with Finland moving from the provincial to national category in 1917.

2. Developmental implications of missing local saving-investment cycles

Many developing and transitional countries have not yet achieved broad-based and sustainable growth. Institutions capable of supporting economic development with localized saving-investment cycles have not developed, leaving a crucial gap that is in no way addressed by either country-level macro programmes dealing with 'development finance' or by donor-driven 'micro credit' schemes (Grameen and other types).

Conventional microfinance and/or micro-credit programs have little sustainable developmental effect, are ultimately artificial manifestations of concessionary or charitable aid depending on donor financing, and almost never lead to local-level entities able to grow and evolve to a scale adequate to finance serious small enterprise development. They are at best viewed as a poverty palliative. The micro-credit vogue has diverted attention from the type of institutional development that can add a sustainable locally-controlled element to the development process. The long-term value of conventional micro-credit approaches is further suspect because their propagators often work to prevent the rise of alternative self-supporting credit institutions, such as real credit co-operatives and locally-owned banks.

Both precedent (country experience elsewhere) and the structural logic (no development without self-sustaining local institutions) suggest that this is a promising space for the development of a localized financial system based on credit co-operatives, which have overcome the SME credit famine and stimulated local saving-investment cycles in a variety of different conditions over the last century.

The advantages of credit co-operatives in mobilizing and financing local economic development contrast with the disadvantages of both conventional micro credit and other recent fashions in 'market-oriented developmental financial institutions'. Locally-rooted and inherently self-financed entities are unfortunately likely to grow slowly at first. And it may be impossible to speed their development with outside-funded "blended finance" without at the same time destroying key behavioral and cultural features necessary to their long-term survival. But finding ways of encouraging and supporting their organic growth is potentially very important and always requires local government engagement.

The enthusiasm with which various donors and multi-national institutions view the micro credit approach is not justified by either their demonstrated or potential efficacy as a stimulator of sustainable economic and social development. Like earlier efforts to 'commercialize' business support services in transition economies, these new entities will almost automatically diverge from and ultimately abandon pursuit of the positive externalities that are the essence of successful local development efforts in all market economy environments.

Dynamic economic growth that works for the poor regions and the poor strata nationally requires locally-owned banking institutions tasked with serving local small enterprise interests, of which credit co-operatives are an outstanding example. Locally-owned banks and local small enterprise systems in various countries function successfully on 'social capital' and expertise that is very costly for large banks that have no inherent local development mission or mandate, to acquire. It does not make sense for them to provide the type of patient, step-by-step credit and other financial service support that firms of a nascent small enterprise sector require.

Concern over the concrete local development effects is intensified when all or most local banks are absorbed by international banking companies. Once under foreign ownership local banks are very unlikely to devote significant resources to support foundation or growth of SMEs in areas where poverty is concentrated. The indebtedness and low profitability of the large banks that did retain their independence strengthened their inherited attitude of avoiding risky financing, requiring high collateral and charging high interest rates. In whatever form, the consolidation, restructuring and privatization of large banks prevented the establishment and development of financial institutions for SMEs in most transition countries.

3. Missing local propagation mechanisms = failure of local government

The absence of a local economic development financing mechanism is predominantly a failure of government policy. The action required is at once simple and self-denying. Policy must be made at the national or large province level but must be executed at the local level. This balance is at the core of the multi-county developmental experience that Johnson (1982) called the *local developmental state* (LDS). It is the open secret of most high-speed country-transforming growth experiences after World War II -- true in wildly divergent circumstances, ranging from Germany, Austria and Italy to Japan, Taiwan, South Korea, and most recently China.

The LDS approach has been conspicuously absent from policy advice or practice in the transition economies after 1989 and is not part of the standard approach offered to other developing countries before or after that period. Although the 'Washington Consensus' is determined to be an intellectual dead letter (Stiglitz 1998), developing countries to this day see little or no difference in the World Bank and IMF policies they confront. The LDS path is only open to them if they have the courage or power to unconditionally reject the guidance or control of the Bretton Woods institutions (Chang 2008).

Most developing economies require but do not dispose of coherent local-level developmental policies, supported by national-level policy that allows room for constructive local initiative and a variety of ownership forms. The *local developmental state* growth model implies a directly para-entrepreneurial role for local government, in some cases including equity ownership in key entities -- German Landesbanken after 1946 and the Chinese TVEs after 1978 are examples. Local and regional governments have a central role in stimulating growth of various types of business activity. This is evident in Nordic, Iberian and other experience. Local government *para-entrepreneurship* and credit cooperatives are two among very few cases where 'advanced country experience' is directly and almost seamlessly relevant to developing country conditions. To follow this path most developing economies require either the creation or expansion of some kind of local finance system. There is also a natural synergy between savings/credit cooperatives and production units with

cooperative or partial employee ownership. It is a robust developmental experience that strangely finds little or no role in current donor-supported development policy.

It is important to link the mechanism used to finance the foundation and expansion of small enterprises on the basis of localized saving-investment cycles, with measures to support local production in the face of the pressure of internationalization of the market. With the arrival in developing markets of large, well-financed foreign producers and distributors, even potentially promising local capacities may be destroyed before finding their feet. Local producers may expire as a result of short-run 'predatory' tactics (penetration pricing, sustained use of loss-leaders, bribery of distributors or retailers, etc.) or loss of market access. Full-information approaches to labeling and non-tariff preferences for locally-produced goods are possible local-level policy responses. It is especially important to maintain consumer access to locally-produced goods when new distribution channels emerge at transitional moments. Financial capacity that is locally rooted is essential if this kind of support is to go beyond short-term 'buffering' and have sustainable developmental effects. How to do this in the face of the pressure and scale of international markets and corporations?

4. Diversity in organizational detail, parallel structural logic -- Finland, Quebec, the Basque region & TVEs

National-level success in rebuilding and/or modernizing after the Second World War was usually heavily dependent on SME support measures that were carried out as part of a national development strategy, but were executed by local-level governments. Provincial- or city-level banking entities often played an important role, either as government-owned entities or as co-operatives with strong government support and some quasi-public duties. Even where the entities in question (Okopankki, Raffeisenbank, Rabobank, Landesbanken, etc.) are familiar today as participants in international financial markets, their developmental role in earlier times and their continuing cooperative nature are scarcely known.

4.1 Finnish development policy and cooperatives: 1900 to present

The Finnish co-operative tradition provides a useful point of reference. For over a century, Finland has used local-level cooperative financial institutions as part of a national-level economic development strategy (Kuisma et al. 1999). While the Finnish experience seems to be invisible as a model, it is a useful addition to debates about SME financing and suggests new tools to support market-based economic growth under sparsely settled, peripheral conditions. This describes much of the FSU and parts of CEE (Skurnik and Vihriälä 1999), as well as many developing countries, but Finland showed little interest in propagating its model next door.

Finland has been astute and vigorous in pursuing complex and subtle industrial and developmental policies, while simultaneously appearing to the outside world to be practicing free-market rectitude. The banking sector is a case in point, where the

success of the co-operative banking system traces back to czarist period. Government deposits were provided to overcome the initial trust, reserve and scale problems. Local cooperative banks were formed into regional alliances under a national confederation, creating scale economies and assuring political visibility. Parallel to and with the support of co-operative banks, a wide array of production and marketing co-operatives arose. A century later they retain a large and indeed generally growing share of the contemporary Finnish market. In 2010 more than one-third of all Finnish deposits and loans involve the capstone co-operative bank *Okopankki* (OP).

**Market Share of Cooperatives in Finland
(percentage as of 31.12)**

	<u>2000</u>	<u>2008</u>	<u>2010*</u>
meat	71	83	81
dairy	96	97	97
eggs	60	47	45
forest owners	34	36	40
livestock breeding	100	100	100
retail trade	41	44	45
banking	34	37	38
insurance	8	9	10

Sources: Skurnik 2002, Pellervo 2009, 2011. *preliminary

Even when they are major entities at the core of local or regional economies, cooperatives usually claim to have a completely arms-length relationship with government. It is refreshing to see the OP-Pohjola Group (2011) state so directly that:

"The first local cooperative credit societies are founded in autumn 1902 but lending does not actually begin until 1903 after the Central Lending Fund has received a large loan promised by the State."

Finland in 1903 was a semi-autonomous a province (Grand Duchy of Finland) of the Russian Empire but nevertheless the administration followed the logic of arguments made by Johan Snellman and conducted an independent economic development policy in the name of cultural/linguistic survival. Political independence and cultural/linguistic survival would only be possible with autonomous economic development. Cooperative banks were seen to be the only workable mechanism to fund that development. The parallel to the Quebec and Basque cases below is clear.

This type of active use of policy to create institutions is fairly common in the Nordic countries and elsewhere in Europe. In many countries cooperatives operate in legal categories that are not explicitly 'cooperative', so the extent of the 'cooperative sector' is not fully measured or appreciated. The ambiguous status of multi-member 'partnerships' is one example. Even within the European Union it is difficult to say

how large the co-operative sector is, making the issue of how large it could or should be in other countries problematical.

Combining co-operative saving and lending institutions with production, processing and service co-operatives makes good sense in many developing and transition economies. The hundreds of 'new wave' co-operatives formed during the severe Finnish recession of the early 1990s are an especially promising concept. Many are technology and technical service companies, in the form of either 'multi-branch work co-operatives' such as the "100 Experts" group in Porvoo or 'single-branch expert co-operatives'. The linkage between these new co-operative forms and co-operative banking is both logical and straightforward.

National or local government engagement is generally required to start such savings and lending institutions but there are vast international differences in the financial structure provided to support small, especially very small enterprises. (European Commission 2000: 19) Use of national policy in the early-Finnish-style to create conditions in which local-level saving, financial services, production, marketing, wholesale buying and other co-operatives take root, is potentially useful as a method to stimulate SMEs under virtually any conditions and at virtually any development level. This is a straightforward lesson of the Finnish and Quebec experience in the early 1900s, working in a sparsely settled and predominantly agricultural 'periphery'. It is the same lesson of the post-industrial Basque 'rust belt' after 1956. And, it is part of the lesson of the TVEs after 1978 in the Chinese countryside.

4.2 The French-Canadian Mouvement des Caisses Desjardins and the Caisses Populaires/Caisses D'Économie: 1900 to present

Credit Desjardins and the associated Caisses Populaires and Caisses D'Économie that form the largest element in the financial system of Quebec province, Canada. The co-operative development in Quebec was independent and in many ways unique, but has some rough similarities to the Finnish path. The Credit Desjardins movement began in 1900/1901 after the formation of a government commission to study the causes of poverty and degradation in Quebec. The commission came to unexpectedly specific conclusions about the need to create local-level financing sources for decentralized development, and even more striking, explicitly conceived of this as an anti-poverty programme. This process occurred in the presence of knowledge about such developments in continental Europe, the UK and India, but it developed its own self-contained set of rules and structural approaches. And in Quebec the progression from small-scale testing of the ideas to rapid social acceptance occurred with extraordinary speed and large developmental effects.

More recently the Credit Desjardins approach has had some success in the south of Russia as part of a development assistance programme financed by the Canadian International Development Agency (CIDA) and operated by the Développement international Desjardins (DiD).

4.3 Co-operative core bank plus business consultancy in Spain: 1956 and after

The striking success of the Mondragón economic-social system is heavily dependent on interwoven economic, social and behavioral features, embedded in a particular cultural setting. The *localization*, *employment generation* and *social solidarity* features of the model make it worthy of close attention by those who are looking for mechanisms to address poverty and exclusion. The rise of the Mondragón model out of isolated, physically difficult conditions, at a time of mass unemployment and underemployment, in the face of at least mild hostility from the national government make it yet more intriguing.

This Mondragón Corporación Cooperativa (MCC) approach places a central and very heavy emphasis on *localization of production* understood to require the *steady creation of permanent employment*. MCC provides high levels of worker benefits (monetary, social and psychological), suggesting that it must be extremely vulnerable to the pressures and *competition downward* dynamics associated with globalization of markets. These forces make the survival or propagation of social values on top of effective core economic activity problematic in most countries. Mondragón has found a way to share the risks of operating in this market environment, engendering sustained effective conduct at the federation (MCC), individual cooperative and member-worker levels.

It is difficult to claim that any one of the five features emphasized below is crucial, but these features work together in a way that is cumulatively both highly effective (by conventional measures of economic performance) and surprisingly successful in adapting to the difficult market conditions created by international competition in many of the highly competitive industrial product areas that define the Mondragón model. It is easy to forget that Mondragón is a model of mostly *industrial* production, using the *worker cooperative* form of ownership, and that this is notoriously difficult to do, especially above very small scale. So, let us look at this situation again and notice how universal aspects dispel the mystery of 'success based on unique Basque cultural characteristics'. Several key aspects follow, the first two developed relatively fully. Perhaps there is no secret.

1/ Caja Laboral Popular -- cooperative banking and management consulting

The role of the core cooperative bank Caja Laboral Popular (CPL) is the *sine qua non* in creating the Mondragón system of locally-owned co-operatives. In a sense the bank built the system. CPL provided borrowers with technical and management guidance when needed, seized control in crisis situations and sometimes moved employees between juridically distinct co-operatives in *keiretsu* style (Shuman 1998). CPL is a mixed form of cooperative, partly owned by depositors and partly by founding worker production cooperatives. This is not the only possible approach. A local government could directly found or guarantee the conduct of a local NGO founder of such a bank, for example. A legislative basis must exist for such a captive bank, but initial support

and continuing close links to (non-national) government have clear precedents. City- or province-level banks with a strong developmental role are strongly rooted in post-WWII development and current practice. LegaCoop (Lega Nazionale delle Cooperative e Mutue, in Italy), RaboBank (Netherlands), and Raiffeisen Bank (Austria), all co-operative banks, illustrate the viability in the financial sector of divergent ownership, management and organizational arrangements.

The CLP focused on local employment generation, devoting local-collected funds to the financing of new cooperatives and using irresistible public information campaigns such as: "Open a cooperative account or pack your bags!" and "Money saved here creates cooperatives here". It also lent and lends to other small non-cooperative enterprises building local and regional legitimacy. Cooperative bank lending does not need to, and in fact should not, go only to cooperatives. Also, ownership and organization forms that are not cooperatives may choose to become cooperatives at a later point. The MCC also continues a practice of buying and cooperativizing private small enterprises when they fit its business logic. The result is something like the classical Italian industrial district, with a constantly shifting balance of cooperation and competition among entities that know each other on a face-to-face basis.

CLP originally carried out enterprise foundation and management consulting (*qua* management) directly *within* the bank through the *Empresarial* Division. The consulting functions were later separated from CLP at the demand of the Central Bank of Spain, but fortunately this did not occur until after the MCC group had substantial forward momentum. New entities were spun-off from CLP to carry out these functions (in the form of cooperatives or second-degree cooperatives), staying within the MCC group, but outside CLP. The Central Bank also required CLP to spread its banking risks by following more conventional portfolio diversification principles, shifting more than half of its lending to non-cooperative borrowers.

Internalization of the management consulting, oversight and crisis management function simultaneously reduces the straight forward banking risk for CLP and provides the new born cooperatives with a level of oversight/technical capacity that makes failure less likely. If there has to be one "key" to success, this was it. This function could be carried out by a (skilled) local government economic development agency. Locating it within the bank itself has special implications and requires legislative toleration. Clearly CLP rose to its full powers in semi-open collaboration with the Basque regional government, even in the high Franco period, but this aspect is not openly discussed.

2/ Local Government and a local-level “grand bargain”

The complex reciprocal relationship with local Basque region authorities is crucial. Protection/toleration/support is offered by various levels of local government in exchange for the devotion of the cooperative bank and other cooperatives to local investment, local employment and positive social effects from its activities. It is difficult to understand the precise details and nuances of the MCC universe from the

outside, but it clearly represents a highly articulated example of the type of *local-level grand bargain* that must be duplicated (in functional terms) everywhere that local economic development efforts are going to be successful while depending heavily on cooperative forms.

The term *grand bargain* simply means that there is an atmosphere of mutual support and assistance between the local government and the cooperatives. The cooperatives will inevitably require implicit and/or explicit support from the local administration to really get going, and the local authorities can expect the cooperatives to pay back this nurturing by being unusually active and forthcoming "corporate citizens". The annual tithing of 10% of the profits of each MCC cooperative to local social sector projects is the straightforward manifestation of this link in the Mondragón system.

3/ Extensive research and development efforts.

MCC contains a remarkable number of centers that do applied product and process research, both for existing cooperative needs and on a contract basis for outside customers, including the Basque regional government and individual provinces. In 2010 there were 14 research centers with a combined staff of 788 and a 59 million euro budget.

4/ Extensive vocational and technical education.

MCC devotes extensive resources to vocational training, refresher and re-training courses and management training, much run through Otalora, a free standing management and co-operative training center. Mondragón University has multiple campuses and approximately 3,500 students working in degree programs up to the Masters level.

5/ Inter-cooperative linkages and service functions.

MCC strongly emphasizes cooperative production arrangements and cross-purchases of components and services from other MCC cooperatives, and strictly avoids direct competition between them. This inter-cooperation is financial and managerial as well and may involve staff support between individual MCC cooperatives, when required. In times of crisis, members sometime move between cooperatives in the manner of the Japanese keiretsu. And while the various research, process and product development centers do contract research for outside non-cooperatives, they do not work for firms that compete directly with MCC units.

6/ Pragmatic problem solving tradition.

One developmentally important aspect of the Mondragón model is not a specific operating institution, or even their particular ensemble, but the pragmatic, highly effective *adaptive local development mechanism* that has been developed there. The tradition of on-going institutional redesign and systems problem-solving is at the center of the Mondragón experience. This organizational dynamism seems to be driven by a durable social philosophy that stresses participation, solidarity at a number of levels (within the cooperative, within the cooperative federation, within the region,

and internationally), and a strong commitment to education and research as central survival tools.

Mondragón is a high-human-development and high-equality model, which sets out to create a continuous stream of positive local externalities, but nevertheless manages to be highly effective when evaluated under a narrow economic calculus. Proving that such a system works somewhere does not prove that it will work elsewhere, but creates a strong presumption that programs and structures designed to serve these core values are not automatically doomed to be shredded by the high winds of the global economy. It is a good starting point for thinking about how to find functionally equivalent mechanisms to support local economic development efforts elsewhere.

Two aspects of MCC are considered questionable for a cooperative: the large-scale international expansion and the use of a significant numbers of employees with no cooperative rights in some Spanish and all foreign production facilities. The rapidly growing Eroski retail chain is the largest example in Spain while the production facilities in 18 foreign countries are in the latter category. The 2008 MCC Cooperative Congress decided to form the entire Eroski workforce into cooperatives and this is in the process of execution (Mathews 2009). The issue of foreign employees is unresolved but remains an apparent moral burden with sufficient force to at least support a commitment in principle to expand some form of ownership rights to foreign staff (Mathews 2009).

So Finland, Quebec and the Basque region had a 'provincial' interest in propagating a different type of system, and in each case it worked and works. But the logic of local development does not work only for separatist/ethnic-linguistic identity reasons.

4.4 TVEs illustrate the *local developmental state*: 1978 to present

One of the most interesting aspects of dynamic Chinese development after 1978 is the emergence of unorthodox ownership and governance approaches that form a distinctive 'mixed property' system. The remarkable success of Chinese local authorities as facilitators and direct entrepreneurs (para-entrepreneurial activity) perfectly illustrates the *local developmental state* conception and is extremely important to other developing economies. The often excessive lending enthusiasm (and corruption) of many banks owned by various local government authorities deflects attention from the extent to which the ownership relationships, banking services and the quasi-planning of highly successful export-oriented development have been locally orchestrated and sustained for 30 years.

The township and village enterprise (TVE) part of the system is in active evolution, seen "through a glass, darkly", toward a variety of unclear future forms. Weitzman and Xu (1994) argue that TVEs are essentially closed co-operatives in which local government plays either a supervisory and facilitative role or acts directly as either as dominant or partial owner. Chinese institutional reforms and mixtures thus have local-level relevance elsewhere, especially once it is noted how strongly some of these new

structures resemble the multi-owner partnership form widely successful in advanced market economies. Stiglitz and others (Stiglitz 1999; Nolan 1995; McIntyre 1998; Stiglitz and Ellerman 2000; Ellerman 2005) propose wide application of this aspect of the Chinese experience in other developing and transitional countries. When TVEs move from full local government ownership to joint-stock co-operative form (with mixed local government and employee share ownership) they are an example of what Stiglitz (1999, 2000) advocates as 'privatization to stakeholders', the direct opposite of the post-Yugoslav case in which socially-owned assets were nationalized in order to allow 'proper privatization'.

Outside China, local authorities in some Central Eastern Europe (CEE) and post-Soviet states face structural conditions that are similar in important ways and, even where privatization and market reforms have gone quite far, are likely to remain economic actors on a scale generally greater than in long-time market economies, so getting better developmental effects from this activity is a vital task.

5. Future growth based on cooperative-local government alliances

Two areas where the close linkage between local government and credit/production cooperatives is especially promising as a source of future socially constructive growth are energy efficiency investments and development of social service cooperatives.

5.1 Decentralized and small-scale energy efficiency investments

One particularly promising areas for cooperative growth, driven by local government strategy, is to combine the credit cooperatives, the local social sector and energy efficiency in a virtuous circle. Any society in which local government plays a role as last resort supplier of energy, electricity or water is ripe for development of this combination, but different specific products will be appropriate. In many parts of the former Soviet Union (FSU), especially outside the capital cities, urban populations remain dependent on centralized hot water and space heat systems in which there has been little systematic attention to improving efficiency at the block and building level. The concept of integration of energy and environmental needs through the mechanism of local government assisted market rationalization fits very well.

Energy efficiency is a sector where local-level financing of small-scale local-level investment offers great potential to simultaneously stimulate SME growth, reduce energy waste and (by reducing the diversion of funds from local social service budgets to pay for rising energy costs) preserve funds for local health, education and welfare programmes. This combination is appropriate to economies in virtually all developmental conditions and circumstances (McIntyre 2007).

5.2 Social service Cooperatives

Social service cooperatives an area where cooperatives could easily play a really important role world-wide, across a wide range of income levels and social conditions. In this view social service cooperates are clearly understood to not mean privatization of social service provision, but instead to be an *organizational method for delivery of social services*. They can be financed by local state, provincial state, national state or NGO entities. This approach can rationalize the delivery process for a wide variety of social services while simultaneously allowing more personalized and continuing relationships between care-giver and care-recipient. Efficiency and more personalized service seldom go together but do in this case. Northern Italian provinces and the Basque region are developing this approach, as are others.

6. Conclusions

The natural synergy between savings/credit co-operatives and production units with co-operative or partial employee ownership is evident in multi-country experience and is relevant in virtually all developmental conditions and contexts. Local and regional governments have a central role in stimulating growth of various types of business activity and are especially important to cooperatives.

The common organizational/institutional core of Iberian, Finnish, Quebecois and PRC experience in triggering local growth shows that success need not be explained by culture or special circumstances. All exhibit the *local developmental state* approach which requires a close reciprocal relationship between locally-owned banks, small enterprises of various ownership types, and local government (province/city/town). There is clear economic logic to why such systems work, but they cannot emerge unless active policy measures and structures are put in place to start the initial forward movement. Energy efficiency investments and social service cooperatives are initiatives that could succeed in many places through such a cooperative-local government alliance.

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