



**The Cooperative Movement – Using Spillovers and
Networking to Catalyse Development in the
Eastern Caribbean Currency Union**

By

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I would like to thank the FND Enterprise Cooperative Credit Union Limited for inviting me to address this important event in your calendar, the 5th Annual General Meeting.

We meet in very interesting and challenging times when each organization and institution in our small island states is required to bring to the table some practical way of addressing these challenges, not only for its own benefit but for current and future generations.

The cooperative movement, more than most organizations, has been there and done that in the past, because of its very structure and purpose. It has been a social and economic force for the protection and advancement of the ordinary people, so to speak, in the countries and communities where it has been established.

The credit union movement in our jurisdiction has had a high level of penetration, based on the statistics, and clearly has an important role to play in the future development of our countries. However, we will have to see cooperatives and credit unions in a new light, that is, as a fundamental part of our development strategy, if we are to make significant progress in our quest for transforming our economies to meet current and future challenges.

The history of the cooperative sector in the Caribbean has its beginnings in the indigenous forms of cooperation which were practiced long before any formal institutional arrangements were introduced. Contrary to the popular saying in the region that “partnership is a leaky ship”, it was common practice back then for people to establish partnerships to meet various needs, for example, savings, labour and commodities. Some of these informal arrangements are still practiced today, known by various names, such as, susu, partner, digging match, swap labour and lend-a-hand.

The formal cooperative movement in the Caribbean had its start in the latter part of the nineteenth century and was influenced by the developments in Europe. In 1900 the Congress of

the British cooperative movement passed a resolution on “cooperation in the West Indies” which called for representations to be made to the government to pass Industrial and Provident Societies legislation to enable the setting up of cooperatives in the region.

In the 1920s agricultural cooperatives emerged but these were mainly agricultural credit and marketing societies. Some of the early cooperatives were also of the fishing and consumer type.

The social unrest of the 1930s became another landmark in the history of the cooperative movement in the Caribbean. The Moyne Commission which was set up in London after the 1937 labour unrests urged the promotion of cooperatives as one way of preventing further unrest. Cooperatives were accordingly promoted by governments as social welfare organisations.

In March 1946, a circular was issued by the Secretary of State for the Colonies to all colonial governments on “the development of the cooperative movement in the Colonial Dependencies”. He recommended that there be a “Registrar of Cooperative Societies, assisted by a staff of the necessary quality and strength, charged with the duty of guiding and assisting the development of the cooperative movement” and that there should be “a proper legal framework for the movement in the form of a Cooperative Societies Ordinance and the necessary rules thereunder”. Most Colonial Governments of the Caribbean implemented the recommendations of the Secretary of State during the late 1940s or early 1950s and many cooperatives including agricultural cooperatives, consumer societies, fishing cooperatives and transport cooperatives were established.

Interestingly, the emergence of the credit union movement was independent of government involvement and was in fact promoted by churches, trade unions and community groups. In the 1950s the number of credit unions and their membership grew steadily and in some countries federations or leagues of credit unions were formed. In 1959 the West Indies Conference of Credit Societies was established as a regional apex body but dissolved in 1966. This was replaced in 1972 by the Caribbean Conference of Credit Unions (CCCU). Apart from the situation in Trinidad and Tobago and Jamaica, the same level of integration did not emerge for the non-financial cooperatives until much later.

I crave your indulgence to share my thoughts with you on the role of the cooperative movement in addressing the current and future development challenges and have therefore entitled my presentation "The Cooperative Movement: Using Spillovers and Networking to Catalyse development in the Eastern Caribbean Currency Union"

This title is chosen to identify the specific role of the cooperative movement and its ethos of cooperation and sharing as a response to the fundamental structural characteristics of our economies and an approach to their resolution. The structural characteristics of our economies are that they are extremely small, open, and vulnerable to external shocks and natural disasters. They are also linked to the performance of our main trading partners, the United States, the United Kingdom, Canada and Europe. Furthermore, their main economic sectors, agriculture and tourism are seasonal in nature, which means that for a substantial part of the calendar year, economic activity is somewhat reduced.

The global crisis has exposed and exacerbated these conditions and there has been a substantial slowdown in economic activity across the currency union, with three consecutive years of negative growth from 2009 to 2011 and only marginal growth thereafter. In fact the region has experienced a continuous decline in growth over the last three decades, which has been attributed to a loss of productivity and competitiveness. We need, as a matter of urgency, to come up with new and innovative approaches to our fundamental economic problems so that we can reverse these trends and move to a new trajectory of sustained growth over an extended period of time.

The principles of the cooperative movement, in my view, are critical to this transformation. The cooperative movement has two dimensions, the credit unions which are a part of the financial sector and consumer and producer cooperatives which are based in the real sector.

Let us start by looking at the general cooperative movement and real sector activity and then follow this with the credit unions and the development of the financial sector as a whole, in order to outline a conceptual and practical approach to our development issues.

The cooperative approach is consistent with two concepts which have been associated with modern growth theory, namely “spillovers” and “networking”.

Spillovers are related to learning and innovation as a result of a number of people operating in close association with each other, exchanging ideas and developing processes and practices which increase productivity. Networking provides a range of contacts which facilitates access to information, markets, technology and finance and can mean the difference between success and failure in any activity.

The cooperative movement can address one of our main structural issues directly, namely, that of size and critical mass. It can also have an impact on the social environment in which we operate, particularly in business and the production of goods and services.

Let us consider the social environment first. There has been over the years a lack of trust between our citizens in the promotion of joint business ventures which, as I noted earlier, is very well expressed in the saying, "partnership is a leaky ship". I must say that this is one of the most subversive of pronouncements with respect to our development. Cooperatives though, by their very nature, have the extreme opposite view of this, which is why the movement has the existential task of making this statement irrelevant and obsolete. Francis Fukuyama, in a book called “Trust”, distinguishes between those countries and societies which have grown at rapid rates (high trust) and those which have not progressed (low trust).

The network effect can be illustrated by way of a case study approach, for want of a better description. I call it the “spider web” and use the bee keeping industry for illustrative purposes. There is a significant difference between one bee keeper and one hundred bee keepers if they are all of similar size and are small. If the single bee keeper operates on his own he will not experience the benefits of the network, neither will there be any spillover effects. A cooperative of one hundred bee keepers in a properly run organization will however experience these effects, which could only be beneficial to their long-run success.

There are certain value propositions in the cooperative which must be clearly identified. These can be equated to the payment of one's electricity bill. In these modern times having electricity is an absolute necessity. The value propositions can be listed as follows:

- The ability to procure raw materials and other inputs at lower unit costs because of bulk purchase;
- The advantages of marketing output under a brand which encourages high standards of production and a quality product;
- The capacity to share research facilities;
- The increased ability to negotiate with third parties; and
- The advantage of outsourcing technical and administrative functions so that more time can be used for production.

This list is not exhaustive as the spillover effect usually results in the constant discovery of new processes to add value to the operation. Each bee keeper will have an incentive to pay a fee (like the electricity bill) to ensure that these advantages are secured. Taking the networking principle forward, one can locate the bee keepers association in the agricultural sector in which they can find value propositions due to increased size and the potential influence of a larger body.

Procurement, branding, and market access as well as representation with third parties, particularly governments with respect to legislation, are significant value propositions for the various members of the agricultural association. The networking can be extended into a national association of private sector members who can make common cause in advocating for a dynamic and innovative entity which will have a tremendous impact on economic growth.

The general point which is being made is simply that in small island states like ours, with extremely small populations, we have to counter this structural element by cooperative efforts in which the value propositions are high and can lead to increasing returns to scale. The networking principle must therefore extend beyond our immediate borders to the currency union so that we can increase the spillovers and extend the network. The policy recommendation which follows from this is that we must put a considerable amount of our resolve, time, technical assistance and

finance into the cooperative movement if we are to make significant progress in the task of transforming our economies.

The complement to the consumer and producer cooperatives is the credit union. This sector has experienced significant growth in the currency union. As at December 31, 2013, the credit union sector represented the second largest segment of the ECCU financial system. The sector reported total assets of \$2.3b and total deposits and shares of \$1.9b. Credit unions have traditionally provided access to finance to those persons in the lower income strata who had limited access to commercial banks. The traditional area of lending was for consumption purposes but credit unions have been increasingly providing loans to small enterprises. In fact they have grown to the extent that they are now considered to be serious competitors of the commercial banks.

It is fairly obvious that credit unions will have to strengthen their operational capacities, increase their capital and make common cause to address the issues of the producer cooperatives if they are to contribute meaningfully to the sustained growth and development of our economies. Indeed a deliberate and strategic approach will have to be taken by the credit unions if they are to maximize their impact on our economies. This will involve a major and constructive effort to:

- mobilize domestic savings and loanable funds;
- provide access to capital for micro, small and medium enterprises; and
- provide business advice and mentoring to these sectors.

The credit unions must be a critical part of the restructuring, consolidation and development of the entire financial sector in the currency union. The current situation is that we have a total of 40 banks, 67 credit unions and 161 insurance entities serving a combined population of approximately 630,000 people. The arithmetic does not compute or add up, as we used to say.

The new Treaty of Basseterre creates a single financial and economic space in the OECS which implies the seamless movement of labour and capital. The goal of restructuring, consolidation and development of the financial system within this arrangement is within our grasp and will

make a tremendous difference to our development prospects. The configuration of the sector would logically involve:

- i. the regionalization of the regulation and supervision of financial institutions;
- ii. the rationalization and consolidation of traditional institutions such as commercial banks, insurance companies, credit unions and development banks;
- iii. the consolidation and advancement of regional institutions such as the Eastern Caribbean Securities Exchange and the Eastern Caribbean Home Mortgage Bank; and
- iv. the establishment of new ones such as the Eastern Caribbean Enterprise Fund, the Eastern Caribbean Unit Trust, and a Credit Bureau.

The resulting structure should lead to a more balanced allocation of loanable funds between consumption and investment, and institutional arrangements for supporting medium and long term finance. The new structure and environment should give citizens the opportunity to participate more fully in the economy, providing them with an economic vote in addition to their political vote. This can be actualised by the cooperatives and investment clubs providing the opportunity for a wider basis for share ownership in the economy.

The cooperatives and credit unions should be in the vanguard of promoting financial literacy and education as well as the knowledge and information to assist individuals, families, micro and small businesses to manage their finances and to invest wisely. The new single financial and economic space and the restructuring of the financial and private sectors will open new vistas to individuals within their own countries and across the currency union for investing their savings, selling goods and services, and supplying their labour for high quality services.

The cooperative movement has always been a strong proponent of education and the predecessor to this organization, the FND, was created in this particular image. The opportunity has now arisen in this time of great challenges for the ethos of the cooperative movement to be brought to the fore. The time is now for the movement to use its creative socioeconomic attributes to meet the current challenges head on, and to place our countries on a new trajectory to sustained growth and development.

I end with the following quotation from a well-known activist “*Tomorrow belongs to the people who prepare for it today.*”

Malcom X.

I wish you a successful Annual General Meeting.

Good evening.