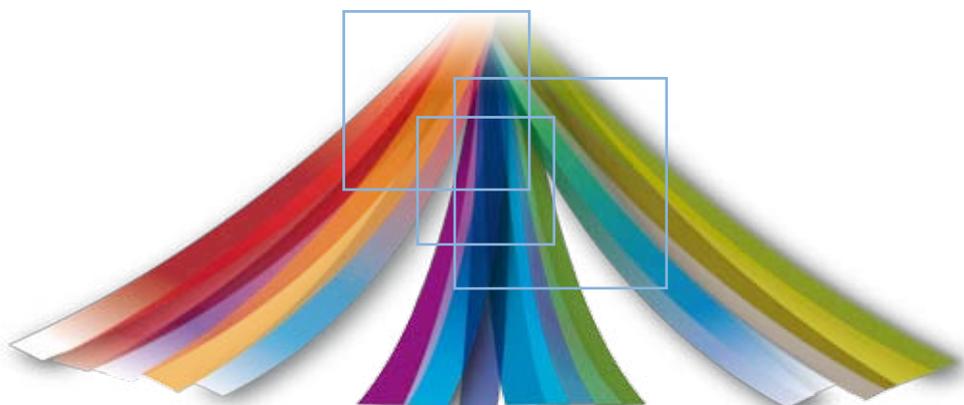


# GLOBAL JOBS PACT POLICY BRIEFS



International  
Labour  
Organization



## THE RESILIENCE OF SOCIAL AND SOLIDARITY ENTERPRISES: THE EXAMPLE OF COOPERATIVES

### 1. Executive summary

The notion of “social economy enterprises” is an evolving, not yet universally defined, concept. In its form of “social and solidarity enterprises” it covers those enterprises whose primary objective is not that of maximizing the return on the investment, but to pursue both economic and social aims fostering solidarity and local development. Among these enterprises, cooperatives stand out, both in number and in economic and social impact.

The financial and ensuing economic and jobs crises have had negative direct and indirect effects on the majority of enterprises and their workers. Information suggests that, with few exceptions, cooperative enterprises across all sectors and regions are relatively more resilient to the current market shocks than their capital-centered counterparts. Thus, the

need to strengthen and further develop this business model should be considered. However, while the cooperative model provides comparative advantages, it is not a magic formula for success.

What sets cooperatives, mutual benefit societies and social enterprises apart from other forms of private enterprise is their connection to the community, underlying values, ethics and democratic principles. The Global Jobs Pact acknowledges the active role of cooperatives in accelerating employment creation, jobs recovery and sustaining enterprises.<sup>1</sup>

<sup>1</sup> ILO: *Global Jobs Pact*, Decent Work Responses, Para. 11 Section (7), (Geneva, 2009) p. 5

### 2. Description of the policy challenges

There are policy challenges facing cooperatives for which options are discussed below. But there are at the same time a variety of advantages associated with the cooperative form of organization.

Cooperative enterprises add a social and cultural dimension to their business while not being charity organizations.<sup>2</sup> Decisions taken by cooperatives tend to balance the need for profitability with the broader economic and social development needs of their members. This is because members of cooperatives are also the clients or customers of cooperatives. The cooperative approach therefore tends to also focus on sustainable development.

Cooperatives are quite diverse, varying by the size of membership, and the jobs that they provide. Ranging from micro-scale to multi-million dollar global enterprises, cooperatives are estimated to employ more than 100 million people and have more than 1 billion individual members globally.

There is historical evidence from the 19<sup>th</sup> and 20<sup>th</sup> century

<sup>2</sup> A cooperative is: “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.” (2002, ILO Recommendation No. 193, Para. 2).

*The Global Jobs Pact policy brief series is intended to inform readers of the relevance of the ILO's technical areas of work in addressing economic downturns as well as assisting in sustainable economic recoveries. Each brief is an invitation to the reader to contact the ILO for additional information and support.*

*More briefs can be found and downloaded at <http://www.ilo.org/jobspact>*



for the resilience of the cooperative business model.<sup>3</sup> In the current crisis, preliminary indications are that cooperatives are more resilient to the market shocks than other types of enterprises. However, as enterprises taking part in the market, cooperatives are also affected by the current crisis.

- **Cooperative financial institutions in many countries have experienced a rapid increase in membership and in the deposit of savings during the crisis**

At the peak of the financial crisis, the increased interest in cooperative banking reached an extent where it became difficult to generate the necessary income to maintain the interest rates to be paid on savings, especially as business activities and hence the demand for credit slowed down.<sup>4</sup> Furthermore, no cooperative bank seems to have applied for state aid so far – with one exception in the United States. Similarly, the German cooperative central bank (DZ) announced a loss of € 1 billion for 2008 as a consequence of high risk investments. This bank is structured as a stock company. The loss was covered by its stockholders, all of them cooperatives.

According to cooperative principles, self-help mechanisms are encouraged, such as additional payments by members upon call, inter cooperative bank guarantees, or the use of reserve liabilities, before applying for external support. Additionally, the double quality of members (member and user/consumer, or saver and potential borrower in cooperative banks, and the savings-first approach) diminishes dependence on outside financing and sharpens risk awareness.

Cooperative financial institutions are often reaching out to the population in rural areas where other banks normally do not have access. Therefore, strengthening these institutions may be a way to alleviate the impact of the crisis.<sup>5</sup>

- **Consumer cooperatives are reporting increased turnover**

Bankruptcies of cooperatives due to the crisis have not been reported, nor have worker/employee lay offs. For example, in Canada's remote northern communities, where cooperatives form the backbone of the local economy, the Arctic Cooperative Limited and its member cooperatives experienced 2008 as the best year in its 50 year history.

- **Worker cooperatives are seeing growth as people choose the cooperative form of enterprise to respond to new economic realities**

Workers' cooperatives are enterprises jointly owned and managed by those working in it for the purpose of production of goods and/or services. Lay-offs are a means of last resort. The potential of this model in times of crisis<sup>6</sup> can also be seen in the Finnish experience: the severe recession experienced in Finland in the early 1990s when unemployment reached more than 20 %. One response was worker co-operatives promoted and supported by the Ministry of Labour and the Finnish cooperative movement which led to over 1200 workers' cooperatives designed to get unemployed people back into work. Spain has a similar scheme for the integration of unemployed into the labour market through cooperatives.

As during previous recessions we can expect an increase in worker takeovers of ailing companies.

Argentina is an example of worker takeovers of ailing companies when the country experienced its most devastating economic crisis in 2001. These takeovers benefited from legal support measures.

- **Agricultural cooperatives**

Agricultural cooperatives had been hit before the current crisis as a result of low international demand for agricultural exports and of shrinking prices for commodities. However, agricultural cooperatives can provide social and economic protection for their farmer members to a certain extent and, therefore, reduce vulnerability.<sup>7</sup> For example, most Ethiopian coffee growers who have predominantly formed cooperatives seem to be less affected by the decreasing world market demand as processing and export is being done through cooperatives.

<sup>3</sup> Credit and savings cooperatives are prime examples as their concept was born in the heyday of economic depression in order to facilitate the access to credit for farmers, artisans and small business people particularly in times of crises.

<sup>4</sup> e.g. Rabobank saw an increase in their market share in savings (42 %), loans to SMEs (39 %) and mortgage lending (29 %).

<sup>5</sup> Cf. also: C. E. Cuevas; K. P. Fischer, *Cooperative Financial Institutions Issues in Governance, Regulation, and Supervision*. World Bank Working Paper No. 82, (Washington DC, World Bank, 2006) p. 1f; A. Demirgüç-Kunt; T. Beck; P. Honohan; *Finance for All? Policies and Pitfalls in Expanding Access* (Washington DC, The International Bank for Reconstruction and Development and World Bank, 2008, p. 113)

<sup>6</sup> See also: *Migrant workers' cooperatives as a crisis response*, ILO Press Release, 3 July 2009.

<sup>7</sup> S. A. Chambo *Agricultural Co-operatives: Role in Food Security and Rural Development* (Paper Presented to UN Expert Group Meeting on Co-operatives held on 28 – 30 April 2009 at New York, p. 8f.)



### 3. Policy options to address the challenges

While the foregoing findings highlight the resilience of cooperatives<sup>8</sup>, there remain challenges to which the following policy measures might apply:

#### 1. Strengthen the cooperative business model

The current pressure to apply harmonized standards to all enterprise types in taxation, accounting and capitalization violates the principle of equal treatment as enshrined in Rec.193. It destroys the distinctive character of cooperatives as member-orientated businesses.

Strengthening the cooperative business model in accordance with Rec. 193 could mean, inter alia:

- providing for an adequate regulatory framework for cooperatives, encompassing labour law, (in particular, the respect of fundamental principles and rights at work), taxation law, accounting standards and competition law;
- strengthening the autonomy of cooperatives and their self-control mechanisms;
- providing for an efficient and effective implementation of the regulatory framework, such as provisions on registration of cooperatives and auditing;
- promoting the establishment of secondary and tertiary cooperative structures and of horizontal linkages between primary cooperatives so that the value added in the processing and commercialization of products remains with the cooperative members.
- promote the formation of entrepreneur cooperatives

#### 2. General policy measures should explicitly target cooperative enterprises, taking into account their distinct organizational structure

- The performance of cooperative financial institutions ought to reflect on measures which regulate the financial markets, including introducing bank taxes. Such regulatory instruments should take into account that, e.g. the

financial crisis has not been caused by the investment behavior of cooperative banks and they already have security mechanisms in place.

- Where applicable, policymakers should promote diversity in the banking industry, including co-operative banks. Regulatory regimes like Basel II which are designed for conventional financial institutions have serious implications for institutions like cooperative banks and credit and savings cooperatives and should be redefined, taking into account the specifics of cooperative banking.

#### 3. Realize the potential of cooperatives and promote new types of cooperatives

- Workers' cooperatives could particularly alleviate unemployment, but it has to be ensured that they are not set up for, or used for, non-compliance with labour standards, in particular to deny freedom of association and the right to collective bargaining, as well as the employment relationship.
- Promoting education and training on the cooperative business model at all levels of the national education and training systems, and in the wider society.
- Furthering the productivity of existing cooperatives and their competitiveness by, inter alia, providing for training and other forms of assistance to members of cooperatives in order to develop their technical and vocational skills, entrepreneurial and managerial abilities.
- Social service cooperatives which provide services in the areas of health care, care of the elderly, and education and may create employment at the same time for certain disadvantaged groups, like e.g. young workers from troubled families, have proven useful models in times of downsized provision of health services and other services, although they should supplement and not substitute for the provision of public services.

<sup>8</sup> Cf. also, H. Hesse and M. Hák: Cooperative Banks and Financial Stability. Working Paper (IMF, Washington DC, 2007).



## 4. Conclusions and recommendations

Even in times of crisis, cooperatives seem to hold advantages and offer society much needed services. This is due to their being governed by a set of universal principles that favour long-term gains over short-term returns. Policymakers should therefore promote this type of sustainable business, inter alia by providing, strengthening and implementing an

adequate regulatory framework. The declaration of the UN International Year of Cooperatives 2012 shows that there is a growing consensus on this. Seemingly, interest in the ILO over making the social economy part of a coherent development model that seeks convergence among social, environmental and community goals is gaining in momentum.

## 5. Further reading and resources

- Henry, H. 2005 : *Guidelines for Cooperative Legislation, second revised edition* (ILO, Geneva)
- Birchall, J.; Ketilson, L. H. 2009 : *Resilience of the Cooperative Business Model in Times of Crisis* (ILO, Geneva)
- Allen, E.; Maghimbi, S. 2009 : *African cooperatives and the financial crisis*/ILO, Geneva)