



In spite of hardships, cooperatives in industry and services remain resilient to the crisis and its consequences

Third annual report on the crisis – June 2011

Introduction

As a response to its concerns regarding the economic crisis and its serious challenges for employment, enterprise sustainability and social cohesion, CICOPA initiated a consultation process in 2009 among its members in order to gain a better idea of the effects of the crisis on the affiliated cooperative enterprises (directly and through its regional organisation, CECOP-CICOPA Europe for European concerns).



Worker cooperative in Uruguay - Picture credit: Manlio Mascucci / ISCOS

Since then, CICOPA has been organising a new consultation every year in order to observe the evolution of the situation, as well as to gauge the response of worker and social cooperatives. This is the third report concerning the situation in 2010¹.

What has been, in 2010, the impact of the crisis that flared up in 2008 on worker and social cooperatives? Is the situation different in Europe compared to the rest of the world? Are there any signs of recovery? Were the measures put in place by worker and social cooperatives and their federations during the previous years sufficient to limit employment losses and enterprise closures in 2010? Those are the questions we have tried to answer in this third report².

¹ See our 2009 and 2010 reports: www.cicopa.coop

² Data provided by members are for 2010. 24 CICOPA members out of 22 countries have taken part in the survey: Argentina, Bulgaria, Brazil, China, Czech Republic, Denmark, Estonia, Finland, France, Italy, Japan, Mexico, Paraguay, Poland, Romania, Slovakia, South Korea, Spain, Tanzania, Uganda, United States of America.



Overall economic situation of the enterprises

Like the two previous years, the majority of European member organisations report a **general downturn in sales and production** compared to the previous year. Without any surprise, the secondary sector is the most affected one.

At the same time, compared to 2009, some members report **stability** or even stronger **recovery signs** starting to emerge. Italy reports an increase in production for cooperatives active in construction as well as an increase of 23% in the production of goods and in the manufacturing industry³.

The service sector - social services as well as other types of services - seems to be stable or even undergoing growth in some countries (It-

³ Confcooperative - Federlavoro data



Members of Acome, one of the largest industrial cooperatives in France - Picture: Gérard Uféras, CGScop advertising campaign 2011

aly, Spain, Romania). Development of cooperatives providing services to enterprises (consultancy etc) has been reported. Concerning the provision of social services, the demand seems to grow, and the **offer provided by cooperatives could be higher**. In fact, a major part of social services provided by cooperatives is contracted by public authorities and the general European tendency of public budget cuts is hampering their development. Late payments from public authorities hinder their development as well, and in some cases (Italy, Spain), they even represent a danger for their survival.

Generally speaking, the **situation seems to be better for worker and social cooperatives compared to conventional enterprises**, mostly in countries with a stronger level of cooperative implantation and experience (Italy, Spain), whereas members from Central and Eastern European countries (Bulgaria, Slovakia, Czech Republic) report that cooperatives face a similar situation to conventional companies.

Overall, extra European members report a certain level of **stability in production and sales** for the last year. The member from Paraguay even indicates an increase compared to the previous year. Brazil and Tanzania unfortunately report less positive results. Concerning the most affected sectors, the situation differs from country to country.

Employment and enterprise closure

Even though some European member organisations report a slight decrease in employment especially in the construction sector, the general tendency indicates a certain level of stability in employment rates for 2010. This data is worth underlining, considering that the majority of the same members were reporting job losses last year.

The impact of the crisis on employment seems to be **weaker** for worker and social cooperatives compared to conventional enterprises. Again this tendency concerns mostly countries with stronger cooperative implantation and experience (France, Italy, Spain) whereas members from Central and Eastern European countries report a situation which is more similar to conventional enterprises. Like in the two previous reports, cooperatives have had to **adapt employment and find innovative measures** based on the participation and the sharing of responsibility by the workers in order to avoid severe job losses (working hours cuts, wage cuts, etc.). The services sector seems to be the sector with the higher increase of employment rate (Italy, Spain, Japan, South Korea, Uganda).

An interesting situation has been reported in Spain: Confesal⁴ reports 7% of enterprise clo-

⁴ Spanish Confederation of “workers companies” (SAL = *Empresarial de Sociedades Anónimas Laborales*)

tures and 7.3% of employment losses while COCETA⁵ indicates an increase of 0.2% of employment among worker cooperatives from its network. In 2010, Spain was facing a general employment decrease of 1.28%. Nevertheless, it is important to underline that those data (between worker cooperatives and “worker companies”) may not be strictly comparable and in order to make any conclusions, they should be analysed over a longer period of time. Moreover, different tendencies according to the types of enterprises controlled by their workers have not been verified on a sufficiently long-term time scale and should be verified in next months/years.

A very interesting fact is that none of the extra European countries report a decrease in employment for 2010: all of them report **stability**, and some of them even mention an **increase in the employment rate** (Brazil, Mexico, China),

⁵ Spanish Confederaion of Worker Cooperatives



Sherlimp, a Spanish worker cooperative member of COCETA



mainly in the services sector.

In Europe, a very slight percentage of worker and social cooperatives closing down have been reported but they seem to be more geographically spread among European countries.

Compared to the previous year, closures were mainly concentrated in Central and Eastern European countries. Small and medium cooperatives are among the most affected by those closures. Extra European members report unanimously that **no cooperative enterprise closures** took place in 2010.

An important percentage of CICOPA mem-



A member of the Arizmendi Bakery cooperative in the USA

bers report the **creation of new cooperatives** mostly being start-ups, active in the provision of social services, industry and construction. An important boom of cooperatives providing professional services to enterprises (consulting, etc.) has to be underlined. The creation of cooperatives through business transfer to employees has been reported in Italy and Argentina as well as cases of spin-offs of existing cooperatives in the Czech Republic and Brazil.

Access to finances and debt problems

European members report **unfavourable attitudes from banking institutions** and very high requirements and access conditions when applying for credits and loans. According to members, the situation is not very different for conventional enterprises, except for Spain where cooperatives are reportedly facing even more difficulties. SME's suffer in general from a very limited access to credit. In turn, in countries where cooperative banks exist, they are more disposed to provide financial support to cooperatives (mainly in Italy and Spain).

Extra European countries also report difficulties in negotiating bank loans and for some of them (USA, Brazil, South Korea) the situation is worse than for conventional enterprises. Contrary to Europe, despite the presence of cooperative banks (USA, Tanzania, Uganda, South Korea),

access to loans and credits is not easier, except for Argentina where a specific fund was created by the state in order to guarantee cooperative bank loans.

Italy and Spain report a very harmful situation for their cooperatives caused by the **late payment problems** from the public authorities. In Italy, members describe unanimously a situation “on the brink of collapse”. Nevertheless, conventional enterprises seem to be affected by the same problem, which seems to be mainly a European one.

Concerning problems of indebtedness, there is no consensus among members: some of them face more serious problems than in the previous year and for others, the situation has improved in one year. In Italy for example this varies from one sector to another: an Italian member reports that the indebtedness has decreased for industrial cooperatives but has increased for cooperatives in construction. A slight majority of members report that the situation is better compared to conventional enterprises. The level of indebtedness is reported as higher by extra European members.



Garaia, the main Innovation Centre in the MONDRAGON cooperative group

Measures to face the crisis

The establishment of **cooperative groups and consortia** represents an important and effective instrument to support innovation and competitiveness for small and medium worker and social cooperatives but is not common for all CICOPA members. Whereas a strong tradition exists in Italy and Spain, some experiences can also be found outside of Europe, such as in Argentina, Brazil, South Korea and Uganda. Members with experience describe various advantages of those instruments: mutualisation and economies of scale, better access to public procurements, higher competitiveness on the market, creation of common labels to be more visible on the market, better access to finance, etc.

Despite its long tradition Italy has been putting in place new instruments to enhance cooperative groups and consortia in time of crisis. Specific agreements have been established between social cooperatives consortia and banks in order to facilitate access to credit. The national Italian cooperative federations have agreed for a partnership with the Italian Chamber of Commerce in order to promote the creation of enterprise networks.

Worker and social cooperatives from the CICOPA network have been very creative in adopting **specific measures in order to survive the crisis, to limit job losses and enterprises closures and to further develop their activities.** Those measures need to be distinguished:

- On one side, we have **short-term measures**, like wages and working-hours reductions, efforts to reduce costs, use of cooperative reserves, solidarity measures among different cooperatives, limitation in investments, subcontracting etc. Very few members report job reductions as necessary measures in order to save the activity: Romania and Italy (LegacoopServizi).
- On the other side, parallel to those “emergency” measures, members have also adopted more structural, **long-term oriented measures** in order to ensure the sustainability of the enterprises on the market: investment in training for workers, invest-

ment in new technologies, product changes and production processes changes in order to satisfy recent ecological criteria, investments in new communication technologies, etc. Technological innovation appears, nevertheless, to be a “privilege” for bigger sized cooperatives and cooperative groups.

For a more detailed literature on measures and instruments put in place by worker and social cooperatives and employee owned enterprises, cooperative federations or public authorities that helped cooperatives to be more resilient to the crisis and better adapt to change, you can read “**Beyond the Crisis: Cooperatives, Work, Finance. Generating Wealth for the Long Term**”⁶.

Future expectations and potential measures

Extra European members unanimously share **optimistic expectations** for 2011 in terms of economic situation for their countries and also for their affiliated cooperatives⁷. The situation is rather heterogeneous for worker and social cooperatives in Europe, but we could say that countries with stronger cooperative implanta-

⁶ by Alberto Zevi, Antonio Zanotti, François Soulage and Adrian Zelaia, CECOP Publications, Brussels, 2011. Book available for sale from September 2011 on <http://www.cecop.coop/-Publications->

⁷ Except Japan which is expecting a worsening of the situation due to the recent earthquake catastrophe

tion (Italy, Spain, France) expect the situation to be **similar or slightly improved** compared to 2010, whereas countries from Eastern Europe expect a **worsening** of the situation (Estonia, Bulgaria, Romania).

In order to limit the damage of the crisis, CICOPA members plan to put in place **support instruments** for their members: creation or development of financial instruments, improvement of trade networks and access to international market, training and access to European funds (for European members), improvement in management training and capacity building.

Efforts made by cooperative federations cannot be sufficient to help cooperatives to overcome the crisis. **Adequate and efficient public policies** also need to be put in place. At national level, members are calling for stronger support for SMEs (specific programs for financing start-ups of cooperatives), better access to credit, reduction of interest rates, solutions to overcome late payment problems, facilitating measures for business transfer to employees, measures facilitating the internationalisation of cooperatives, better access to public procurement, easier access to European funds (for European members) etc.

European members are asking European institutions for a better recognition and respect of the cooperative model in European policies: revision of public procurement rules (and the re-

vision of the Art.19 of the Directive 2004/18/EC⁸), ensure a rapid implementation of the new Directive on combating late payment in commercial transactions, effective policies for the development and creation of SMEs and a better access to European funds.

8 See CECOP position on the review of the Public Procurement Directives: http://www.cecop.coop/IMG/pdf/CECOPGreenPaperPP_EN.pdf



Conclusions

- Overall, we observe a better situation in term of economic performance, employment and enterprise survival rate for worker and social cooperatives compared to conventional enterprises as well as stronger signs of recovery mostly in countries with a stronger cooperative implantation and experience (Italy, France, Spain), whereas members from Central and Eastern European countries report that cooperatives face a similar situation to conventional enterprises.
- Even though some members report a slight decrease in employment, the general tendency indicates a certain level of stability in the employment rate for 2010. Compared to the slight percentage of enterprises closing, more geographically spread in Europe than in previous years, this indicates that very few jobs are lost in existing cooperatives.
- We also notice that the crisis has entered a new period in which things are shifting more swiftly: some countries were resistant until now but it seems that measures they had put in place in order to avoid closures are no longer sufficient.
- Cooperatives in the service sector are experiencing stability or are increasing in some countries compared to 2009. Employment has even increased in this sector. In Europe, activities and the development of cooperatives providing social services are hampered by the public budget limitations and late payment problems.
- We observe very contrasted tendencies in the construction sector: it is one of the sectors where the harmful impact on production is the strongest and at the same time one of the most fertile for the establishment of new cooperatives.
- In order to overcome the crisis, there is a need for complementary short-term “micro” (at the enterprise level) and long-term “meso” (at the cooperative federation, support institution or group level) and “macro” (at the state, public-policy level) measures: cooperatives cannot alone exit the crisis, solidarity cooperative mechanisms, as well as adequate and effective public policies, are necessary.
- The most impressive acknowledgment from this survey is perhaps the following; the situation seems to be better for extra European members. They are more optimistic about the economic tendencies for the next year for their affiliated cooperatives. None of them report a decrease in employment or any closure of cooperative enterprises in 2010. This phenomenon seems to suggest that the “single market” economic structure, with all its obvious advantages in terms of potential for economic development, is causing European countries to lose some levels of protection which may be needed in a crisis conjuncture in order to prevent one country from suffering from a negative economic domino effect from its neighbours. It also suggests that policies stimulating the economy and promoting business, which tend to be stronger in the non-Euro-



pean countries where CICOPA has members (including developed countries like Canada and South Korea and emerging ones like China and Brazil) are paying off, differently from what is happening in Europe, where the present focus is on budget cuts and structural measure.

EDITOR'S NOTES:

CICOPA, the International Organisation of Industrial, Artisanal and Service Producers' Cooperatives, is a sectoral organisation of the International Cooperative Alliance. Its full members are representative organisations of producers' cooperatives from different sectors: construction, industrial production, general services, transport, intellectual skills, artisanal activities, health, social care, etc. Its associated members are support organisations promoting cooperatives in those sectors. Many of those cooperatives are worker cooperatives, namely cooperatives where the members are the staff of the enterprise, i.e., worker-members. **CECOP-CICOPA Europe** is CICOPA's regional organisation for Europe.

1. According to the internationally agreed definition, 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" (ILO Recommendation 193/2002).
2. As an association of persons that are generally key stakeholders (producers, consumers, users, etc.) the cooperative business model puts persons at the centre and is grounded in values such as solidarity, equity, equality and care for the community and the environment, which translate into binding operational principles. Cooperatives are significant economic actors in many different sectors.
3. Among them, worker and social cooperatives are owned and controlled by the enterprise staff. Other types of enterprises, such as the Spanish "sociedad laborales" (workers companies) share the same characteristics.