

Co-operatives and the World Economic Crisis – Co-operative Opportunity

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Although I am very pleased to be giving this presentation, I am also very sad as I am sure our late President of ICA, Ivano Barberini, would have wished to have been here. Ivano firmly believed that co-operative enterprise was a better form of business and current events are proving just that. I hope this presentation will help to make that case and does him justice.

The impact of the financial crisis is felt by the developing economies as well as the developed. Growth is slowing down in all these countries. Growth rate in current year is much lower than the previous year. Prospects for 2010 do not appear to be better. While most of 2008 escaped from the impact of global recession, but in 2009 the impact is visible and palpable.

The international financial crisis, as we all know, originated in the sub prime mortgage crisis which surfaced nearly two years ago in the US. With interest rates rising and home prices falling there was a sharp jump in defaults and fore closures. However, this would have remained as purely mortgage market crisis but for the fact that these sub prime mortgages were packaged into financial derivative products that were rated as investment grade. Once doubts about these assets arose it became very hard to price them. As a result, it started affecting a host of institutions which had invested in these products

But, amid the gloom and doom of the past several months, there is good news for the co-operative movement. Co-operatives are faring better in the financial and ensuring economic crisis than other enterprises.

Co-operatives were born in the hard times of the industrial revolution, they survived and thrived during the Great Depression of the 1930s, and there is growing evidence to anticipate that co-operatives will thrive and many more will be born during our current “hard times”.

What is the evidence base?

The International Co-operative Alliance has just commissioned a *study* for the International Labour Organisation that shows that the co-operative model of enterprise is more resilient to crisis - *financial cooperatives* remain financially sound; agricultural co-operatives in many parts of the world are showing surpluses, consumer co-operatives are reporting increased turnover; and worker co-operatives are seeing growth. And so, people are choosing the co-operative form of enterprise to respond to new economic realities.

So, this is indeed a time of *opportunity* for the co-operative movement. It is an opportunity to show that there is an alternative business model which instead of focusing on profit, focuses on people and guides its operations on the basis of the co-operative values and principles.

For co-operators, this is simply what a co-operative is and does. However, for many, this sounds like quite a revolutionary concept - A model of enterprise that not only drives economic development, but also economic and political democracy and social responsibility – a fairer way of doing business where social and environmental values count not as something you do if you can afford to do so, but that simply are the part of the way you do business. The movement, as we all

know, is not new, nor is it insignificant in terms of neither its economic contribution nor its membership. Indeed, ICA will shortly be releasing new statistics that shows that closer to 1 billion people, rather than the 800 million we have been quoting, are members of co-operatives and that this number reflects only those persons affiliated to co-ops through ICA's 223 member organisations in 85 countries. The Movement provides 100 million jobs, 20% more than all the multi-nationals put together and, of course, our **300 Project** shows that the top 300 coops in the world have a combined turnover equal to the size of Canada's GDP!

Our challenge today is grab the opportunity that is being offered to us. As one ICA board member noted, we need to speak louder about the merits and successes of co-operatives to raise awareness on the fact that other ways of doing success business exist, are just as successful and are worthy of more attention and support.

Economists, academia and the international community are desperate for answers on how to stimulate a global recovery, and in doing so are beginning to question the economic model which has lost the confidence of policy-makers as well as the average person. Indeed the famous economist, Jeremy Rifkin, will be our keynote speaker at our **General Assembly** in Geneva in November emphasising the crucial role the co-operative movement has in resolving the combined effects of economic crisis, energy needs and climate change – please be there!

Former US Federal Reserve Chairman Alan Greenspan went before the US Congress last October, and told American lawmakers that the economic meltdown had revealed a “flaw in the model” that he had not expected – that banks operating in self-interest would not self-regulate to protect their shareholders and institutions. That flaw has led to the massive public bail-out of private, investor-owned banks. However, very few co-operative banking institutions have needed any kind of government support as few have shown the level of irresponsibility in their operations and financing that has been so apparent in other financial institutions.

Savings and credit cooperatives, credit unions, SACCOs, building societies and cooperative banks all over the world have experienced an increase in almost every facet of their business including: increase in assets and deposits; increased volume of lending; increases in membership; a better rate of interest; and greater stability (measured by capital adequacy ratios, and loan default rates). This is an important fact when you consider that the magnitude of the movement: the World Council of Credit Unions has 49,000 credit unions in membership, with 177 million individual members in 96 countries while the International Raiffeisen Union estimates that 900,000 cooperatives with around 500 million members in over 100 countries are working according to the cooperative banking principles.

So, the criticism of the financial co-operative sector – that they are more risk-averse and less driven by the need to make profits for investors and bonuses for managers, is now a true asset.

We know for example from Pete Crear, CEO of WOCCU that, “not a single credit union, anywhere in the world, has received government recapitalization as a result of the financial crisis and they remain well capitalized”. We know too that in 2008, Rabobank (Netherlands) which has 50% of Dutch citizens in membership, and is the largest agricultural bank in the world was also rated the world’s third safest bank. It saw its share of loans increase to 42% of the market, and its local member banks recorded a sharp influx of savings of 20%. We know too that Raiffeisen Switzerland reported that 2008 outstripped all expansion in its 108-year history with 150,000 new members (7.3% increase to over 1.5 million members) and inflows of some 12 billion Swiss francs of new money in the retail business, taking total client monies above 100 billion Swiss francs. In the US, credit union loan volume increase 6.7% in 2008 while US bank loans declined by 40% and credit union loan delinquency rates though increasing are still less than half the rate for banks.

And from the Bahamas, to Philippines and Kenya, government officials are recognising that co-operative financial institutions are safe, stable and sound and encouraging their citizens to continue to bank with them.

That is not to say that no financial co-operative has been impacted. In Japan, Korea, France and Germany to name but a few, some of the larger co-operative financial institutions that invested heavily in the market have made severe losses. Some have foregone dividends, others have looked to mergers and sought additional capital, but none is out of business. In the US and Canada losses have been also been made at the level of central cooperative banks and credit unions, many attributed to investment in what were once AAA securities – i.e. considered to be the safest of all investments.

Other sectors of the co-operative movement are also doing well in this crisis. The consumer movement is reporting an influx of new members and consumers. Many are reporting high turnovers not only for 2008, but also good performance for 2009 with guarantees to consumer to limit price increases and not sacrifice quality. CICOPA is gathering information from workers co-operatives and we know how they have grown in other crisis – like in Argentina in 2001 when employee-owned co-operatives flourished to take over failing enterprises – *empresas recuperadas* - or in times of high unemployment when the movement partnered with government to promote worker owned co-operatives in countries like Sweden, Finland, Canada and others.

And how are farmer co-operatives faring in this time of not only a financial and economic crisis, but also a food or food price crisis?

There are reports from around the world that farmers' co-operative surplus was of record proportion particularly in rich and emerging market nations, but also in some developing countries, despite that 2008 being a year of high volatility of

commodity prices, oil prices and investment markets. *Agricultural co-operative* banks like Norinchukin and NACF have suffered losses and are unlikely to be able to distribute dividends as in the other years, thus impacting the stability of the farmer, fisher and forestry co-operative sector. However, it is interesting that there is not much information on how farmer co-operatives are doing vis-à-vis this crisis. Rather, there are such a wide range of challenges faced by the agricultural sector that farmers are simply bracing for the hard times once again.

As US Coop, Land O'Lakes chairman, Pete Kappelman, reminded delegates at their annual meeting: "We have built a system that has consistently created value by helping producers and partner co-operatives manage through down times and capitalise on the up times. Together, we will meet the challenges of 2009 and beyond." This sentiment was reiterated recently by COGECA president, saying "despite the current difficulties in sectors such as dairy, beef, pigmeat and olive oil, European agri-cooperatives have confidence in their ability to help their members surmount these hard times. Farmers and agri-cooperatives continuously invest and innovate in order to secure a fair position in the food chain. This is even more necessary in the light of evolving global markets for food and agricultural products."

However, the 2009 crisis will pose a number of additional challenges particularly in accessing to capital as seen by the recent offer for retail bonds by Fonterra in New Zealand to raise monies for general business purposes, including working capital requirements when its overseas credit facilities became increasingly scarce and expensive. It was looking to raise NZ\$300 million and was a stunning 267% oversubscribed reflecting the confidence people have in Fonterra and its business and perhaps to of the fact that it is a co-operative.

So why are co-operative able to survive and indeed thrive in crisis and beyond?

It is the model. Co-operatives aggregate the market power of people who on their own could achieve little or nothing, and in so doing they provide ways out of poverty and powerlessness. They do so by operating under seven cooperative principles: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community and are guided by a series of ethical and particularly *co-operative* values that set them aside from other forms of business – solidarity, democracy, equity, equality, self help and self responsibility. We eschew the selfishness and greed of our investor owned competitors.

The general advantages of co-operatives are derived from membership. Cooperatives are uniquely member-owned, member-controlled and exist to provide benefits to members as opposed to profit and this has an impact on business decisions. When the purposes of the business are aligned with those of members who are both investors and consumers of the cooperative, the results are loyalty, commitment, shared knowledge, member participation, underpinned by strong economic incentives. These are the kinds of values any business organisation would want but that investor-owned business can only achieve by mimicking the idea of membership

The particular advantages of *consumer cooperatives* are that they provide people with consumption goods at the lowest possible price and with a guarantee of good value, and so make their income go further. *Producer cooperatives* enable self-employed people and family businesses to gain the strength in numbers they need to survive in the market. *Agricultural co-operatives* in particular improve bargaining power in the marketplace, reduce costs by pooling capital and resources, and make expensive services, such as marketing, that are unavailable to individuals accessible. Through cooperatives, farmers can achieve economies of scale, by reducing the unit costs of inputs and services, enabling farmers to focus on

producing goods enabling them improve product and service quality and reduce risks, develop new market opportunities or expand existing markets.

There is also evidence that co-operatives in all sectors survive better than their competitors; the rate of survival of new start ups is better, and the co-operatives outlive other types of enterprises.

We are not alone to recognise the potential of the co-operative movement. In the year or so, there has been a rediscovery; some say a renaissance of the movement. The World Bank, the International Monetary Fund, the International Labour Organisation and the United Nations alongside international business and national media including the Economist, Wall Street Journal, the Financial Times, Le Monde, El País, the New York Times, and many more have started looking at the co-operative model and acknowledging its success – albeit reluctantly!

They like others recognise that cooperatives can lessen the impact of the recession by the mere fact that they survive and continue to carry out business. Co-operatives can use member capital rather than bank borrowing to expand the business, and they provide services to more risk-averse consumers. More specifically, worker cooperatives can concentrate on employment creation through labour cooperatives, employee buyouts and rescues, consumer cooperatives on lowering the cost of food and other essentials, and producer cooperatives on making members' businesses more productive.

The recession will hit developing countries particularly hard, but it can be countered by continued strengthening of the savings and credit Co-operative sector and development of farmer cooperatives and new cooperative unions or federations to develop their business. Also important are the strengthening of links between cooperatives, through technical assistance, product development and fair trade.

Over the years, cooperative enterprises have successfully operated locally-owned people-centred businesses while also serving as catalysts for social organization and cohesion. With their concern for their members and communities, they represent a model of economic enterprise that places high regard for democratic and human values and respect for the environment. As the world today faces unstable financial systems, increased insecurity of food supply, growing inequality worldwide, rapid climate change and increased environmental degradation, it is increasingly compelling to consider the model of economic enterprise that cooperatives offer.

At the recent meeting of the UN's co-op expert group, planning for the International Year of Co-operatives in 2011 or 2012, they recommended that Governments should:

1. give preference to co-operatives when making decisions about funding programmes designed to mitigate the effects of the recession;
2. assist the co-operative sector in ensuring that the co-operative form of business is better understood by ensuring that co-operative business education is included on the education curriculum at all levels, from primary school through to business school;
3. support, through state-funded research councils, research and development into all aspects of co-operative business;
4. provide a legislative environment that allows co-operatives to extend their business into micro-insurance products that provide their members with a minimum of social protection; and
5. consider the co-operative sector's values, principles and models in its restructuring of the current economic system.

In conclusion, I am personally very pleased to support this initiative by my colleagues of ICA Asia Pacific. There can no denial of the fact that cooperatives at this critical juncture must advocate and prove the values that distinct them as the guardians of real socio-economic growth. The time has come when cooperative practices must be understood and practiced in both conventional and non-conventional sectors so as to insulate macro and micro economic development from

the ills and evils of neo liberal economics. The challenge is huge. The value and significance of cooperatives is required to be seen in its true historical form and actionable steps have to be planned. Co-operative ideology cannot be seen in isolation rather it has to become an integral part of the social and economic norms that the local and global communities embrace naturally, rather than by imposition. The UN theme for ***International Co-operative Day*** on Saturday, *Driving Global Recovery through Co-operatives*, is a good start and we need your Governments' active support at the UN in October to achieve an International Year of Co-operatives which really would be the ultimate promotional tool!

We have to show that Co-operatives are the ***better*** business model!

Thank you.