

ICA – IFFCO - CLT
International Conference on
Enhanced Role of Cooperatives in Recovery from the Economic Crisis

Bangkok, July 2-4, 2009

Recommendations
on
Strategy for Co-operatives
to
Emerge as Alternative of Significance in the Economic Recovery Process

1. Background:

The conference on Enhanced Role of Cooperatives in Recovery from the Economic Crisis was organized by ICA Asia Pacific in collaboration with Cooperative League of Thailand and Indian Farmers Fertilizer Cooperative with the objective of creating a shared vision on the scope and role of cooperatives in the global economic crisis so as to devise a common strategy to REPOSITION cooperatives as preferred form of enterprises and Global Alternative of Significance.

75 participants from Cooperatives and Governments of 16 countries in the Asia Pacific region attended the conference.

The basis of deliberations was thematic presentations made by experts from ICA (the Director General ICA and Secretary General CICOPA) and top officials of successful cooperatives like NACF, IFFCO, JCCU, SNCF, AACCU, CPD and Governments. The presentations were focused on impressive track record of cooperatives that had transformed the core cooperative values into practice.

2. Underlying Causes:

Present economic meltdown comes at the juncture when globalisation and open market scenario were just getting superimposed after a long love and hate kind of global transactional business propositions.

Apparent cause was insatiable lust of the financial market for the profits. The volume of financial derivative products that had jumped from 4000 billion US\$ to 596 000 billion US\$ between 1992 and 2007, i.e., a 150 times increase in 15 years had received a blind eye from the regulators and investors.

The International Financial Reporting Standards (IFRS) defined by the London-based IAS Board ultimately led to a dangerous instability of the value of listed companies through the concept of 'fair value', by which the value of a company is recalculated every three months on the basis of an anticipation of its market value at the time it would be acquired.

Resultantly, the business people have been enticed to seek quick results instead of having a long-term vision of the enterprise, leading to a trend towards greed and extravaganza. This trend consequently induced a paramount priority to the shareholders' interests above the employees' interest.

The consumers have been induced to consume more than required, and to borrow in order to consume more, hence the famous 'subprime' crisis.

But the consumers are not the only ones to have fallen into the 'debt trap'. Large enterprises too have increasingly gone into debt mechanisms in order to acquire and control other enterprises along the supply chain, thereby contributing to the steep increase in "toxic" products mentioned above: debt is sold as capital in order to get more credit, in complete contradiction with the most elementary economy textbook.

The diversion away from the real economy has become so blatant, and debt has become so widespread, that we can no longer talk of capitalism as we used to know it, namely a system of production and capital accumulation. Nor can we qualify the economy as being dominated by the "free" market when, at the international level, most trade has become 'in house' and intra-industry, and when, as a result of that, prices are often administered, instead of being defined by the system of offer and demand as the classic theory goes.

Nor, with the massive bailout that followed the breaking point of the crisis, have the Western governments behaved as if they were following the classical liberal paradigm, whereby lack of intervention and deregulation are the must. At any rate, even the deregulation policies accompanied by a "light touch" fiscal regime are not neutral and are a form of regulation *per se*, that directly impacts on the market economy. And this attitude has contributed to promoting an ideology of optimism, disconnected from the reality and contributing to triggering off the crisis.

It is expected that the meltdown will now affect all aspects of the economy, in the Western industrialised countries but also elsewhere: public spending, production, employment, prices of basic goods, pensions, remittances of emigrated workers, exports, development funds, and the solvency of the states.

3. Why Cooperatives assume significance:

Cooperatives were established to defend ordinary citizens economically against rising monopolies, to include them in the economy by achieving economies of scale, and to have some control over the parts of the economy that were affecting them .

They have been developing mainly in periods of 'great transformation': marketisation of daily goods (consumers' cooperatives), land reform (agricultural and rural credit cooperatives), urbanisation and post-war reconstruction (housing and construction cooperatives), industrialisation (industrial cooperatives), the monetarisation of the economy (credit cooperatives and cooperative banks), the development of the tertiary sector (service cooperatives), the 'de-statisation' of public services (social cooperatives).

Cooperatives often regain ground in local economic crises, like in Brazil in 1994, or in Argentina in 2001. It can be assumed that the same will happen with this global crisis.

Cooperatives, along their history, have proved to build a type of economy with the following characteristics, each of which is in stark contrast with those that have brought about the economic crisis:

- It is based on needs that are basic and permanent (such as employment, production, consumption of basic goods, saving and borrowing, housing, etc)
- It therefore also has long term objectives
- It is based on ordinary citizens, and join together to solve the needs mentioned above
- It is rooted in the local community and does not delocalise
- It is not for sale and thus not dependent upon the ups and downs of the shareholders' market.
- It is based on democratic control by members-owners, with accountability & cross checks
- It plays a strong stabilising role on the markets, and the more so when cooperatives make up a strong proportion of the economy in a given sector (e.g., 60% of the banking market in France, 90% of the agricultural market in The Netherlands).

Over the past few decades, cooperatives have by and large shied away from asserting themselves according to their own identity. There are many reasons but the onus lies on the cooperative leadership.

4. Main Challenges before cooperatives:

The share of intra-cooperative trade and economic agreements is still far too low to ensure that cooperatives are a relevant actor in the global economy. This is not to say that cooperatives should create a parallel economy, but only that they should have a far more substantial part of trade and economic agreements than has been the case so far.

The cooperative movement needs to strongly develop its own standards based on its own set of values and principles, against those that are developing against us, such as the International Financial Reporting Standards, and that will destroy us if we do nothing. The cooperative standards should be better developed along the different cooperative sectors.

Cooperatives should strengthen information and education at large, including on the successes of legendary cooperative institutions and enterprises. In particular for gaining the confidence afresh, people should be convinced to put the stakes in cooperative ventures especially in the captive market segments where cooperatives enjoy their own niche.

Policy & legislative aspects on the cooperatives in the above context must ensure supremacy of democratic control and governance in the spirit of ICIS.

5. Notion of Recovery and the way forward:

After the spectacular bailouts which we have been witnessing, the move towards completing the privatization of public services is going on unabated. Furthermore, the

G20 have not yet come to an agreement on how to regulate the international financial and monetary system, nor is any breakthrough-type agreement pointing at the horizon.

Thus, even if signs of recovery do exist, in some countries more than in others, the risk that an even bigger crisis might loom large, at least in the Western industrialized countries, is one that should be taken seriously?

Asian countries have a strong responsibility in this, by either trying to prevent such a larger crisis to flare up, or by protecting themselves from it through appropriate policies. Part of such policies, precisely, must reinforce the cooperative movement for the reasons cited below.

<u>Model 1</u>	<u>Model 2</u>
<u>Profit Driven Private Enterprise Model</u>	<u>Benefit Driven Cooperative Enterprise Model</u>
Remuneration of shareholders	<i>Satisfaction of the needs of stakeholders</i>
Dependence on financial markets	<i>Independence from financial markets</i>
Debt accumulation	<i>Capital accumulation</i>
Instability of enterprise value	<i>Stability of enterprise value</i>
Instability of enterprise location	<i>Stability of enterprise location</i>
Job instability	<i>Job stability</i>
Short term strategy	<i>Long term strategy</i>
Vertical control	<i>Horizontal, democratic control</i>

If cooperatives are characterized by an opposite model to the one that brought about the crisis, it is logical to assume that coops could have a role in its solution.

Cooperative strategy should be geared towards the middle-long term, while also maintaining a close eye on the short term.

Governments, regional organisations and multilateral organizations should explicitly recognize the key role that cooperatives could have in solving the deep structural problems of the national and of the global economy.

6. Measures required:

6.1 Strengthen democratic control

The present crisis indicates that the lack of democratic control over the economy is, in the long run, unsustainable.

Although democratic control is central to cooperative institutions, its concrete implementation must be substantially improved. The opponents of cooperatives, in particular in the field of public policies, often insinuate that democratic control in cooperatives is only formal, and the more so when cooperatives become large enterprises. Thus, our first defense is to demonstrate that this is not the case through actual practice and we must prove it by examples of successful cooperatives using all the feasible and effective modes of publicity and awareness building.

6.2 Promote indivisible reserves

Also key to the reinforcement of the cooperative movement are the corollaries of democratic control which we find in the 3rd cooperative principle, and in particular the institution of indivisible reserves.

Indeed, indivisible reserves constitute a potent deterrent against attempts at external takeovers on cooperatives. In the absence of indivisible reserves, such takeovers are difficult but possible; if the members manage to be convinced to give up their membership of the cooperative in a general assembly (the other side of the coin of joint democratic control is the capacity to democratically destroy the jointly controlled enterprise). But when a cooperative enterprise has accumulated over decades or sometimes over a century, sizeable indivisible reserves which the potential acquirer will never get hold of, the latter will think twice before triggering off an operation of this kind.

Since cooperatives remain the last substantial part of the economy which is not for sale nor to be put out of members' control, the indivisible reserves should be rediscovered to ensure members' and customers' loyalty.

6.3 Use cooperative values in publicity

Under the present crisis, which also reflects a crisis of values in the economy, cooperative values should be rediscovered as a potent commercial argument. Timidly, a number of cooperative groups in Europe, e.g. in agriculture and banking, are beginning to incorporate cooperative messages in delivering their publicity slogans.

6.4 Boost information and education on cooperatives

In order to revert strong prejudices in public opinion about cooperatives, both representative tiers of cooperatives and the governments should sponsor and promote information campaigns that clarify a number of misconceptions, and in particular about the assumption that democratic control would decrease proportionally to the size of the cooperative enterprises, and about the nature of the

cooperative “dividends”, which in fact are not dividends at all, but an adjustment of the price of the transaction between the member and the cooperative.

6.5 Identify promising sectors

Cooperatives must reinforce themselves in their various sectors and typologies in the different countries. The sectoral coverage of cooperatives is very patchy: agricultural supply and marketing in China, milk, sugar, fertilizers in India, consumers’ cooperatives in Japan, cooperative banking in France and Germany, worker and social cooperatives in Italy and Spain, etc. This makes it difficult for the cooperative system to present itself, and be perceived, as a credible and viable alternative in each and every sector of the economy in each country.

In this age of financiarisation of the economy, the development of cooperative banks is particularly critical. When cooperatives reach 17-20% of the banking market (EU average) or even 60% (in France), and when they dedicate 30% of their activities to SMEs (EU average), they can be seen as a real stabilizer of the economy, and indeed they are, and have proven to be during this crisis.

Two types of cooperative banks should be developed: a) generalist cooperative banks, providing loans to individuals and SMEs; this is the model of the German Raiffeisen banking group, the French Credit Mutuel, and Quebec’s Desjardin (each of them being among the major banking groups in their respective country or region). b) cooperative banks specialized in the development of cooperatives and controlled by cooperatives or cooperatives/social economy organisations, like the Credit Coopératif in France or Mondragon’s Caja Laboral in Spain.

The two types are complementary and not mutually exclusive, and both are necessary to a strong recognition of the cooperative system as a stabilizer of the economy. Indeed, type a) would work towards the stabilization of the national and international financial system, while type b) would in fact be development banks for cooperatives.

The development of industry and services should not only be focused on urban areas. Indeed, the development of cooperatives in cottage industries, tourism and services linked to agriculture should be seen fundamental in rural development, especially in many Asian rural districts that are characterized by rural under-employment.

6.6 Develop cooperatives of SMEs, small producers and professionals

There is a considerable scope for development of the cooperative movement through second degree cooperatives for small enterprises, small producers and professionals.

We have cases of excellence in a number of countries, such as handloom weavers in India, taxi drivers in Singapore, medical professionals in Uruguay, bakers in Germany, masons, carpenters and mechanics in France, lorry drivers in Italy, various handmade industries in Egypt etc.

Depending on the sectors and the circumstances, those cooperatives may have different functions, such as group purchases (of raw materials or inputs), common commercialization, stock managements etc.

6.7 Fragile enterprises should be converted into cooperative enterprises

Provided projects are handled professionally with knowledgeable people, and a constant follow up by cooperative federations and/or enterprise support institutions as mentioned above, the cooperativisation of enterprises threatened to be closed down can be a successful activity and save many jobs.

Hundreds of cooperatives have also been created under this modality in Brazil and in Argentina following those countries' national economic crises, respectively in 1994-1995 and 2001-2002. In Shanghai, 99 state enterprises were transformed in cooperatives between 1996 and 1999 within the framework of a CICOPA project, involving 36 000 jobs, amidst the then state policy of 'zhua da fang xiao' (litterally 'keep the big ones and let go the small ones', referring to state enterprises). Most of those enterprises would have otherwise been closed down, and most of the jobs would thus have disappeared.

ICA members that are most involved in this type of cooperative activity, namely in Italy, Spain, France and Argentina, are reporting that the present economic crisis is bringing in a whole batch of new enterprises in crisis to be transformed into cooperatives.

This modality can substantially improve the perception, at the national level, of the cooperative system as a viable and sustainable alternative.

6.8 Set up cooperatives in community activities and services of general interest

The massive privatization of public and social services taking place across the globe (including health, energy production and distribution, education, the environment, culture, the care of the elderly etc) constitutes an opportunity for the cooperative movement that should not be missed.

The Italian social cooperatives, that have so far been at the forefront of this trend, have seen their numbers literally exploding: the biggest of the three Italian federations of social cooperatives, Federsolidarietà (a CICOPA member), experienced the following increase of its affiliated cooperatives in only 5 years:

	2001	2006
Number of cooperatives	2822	4143
Number of jobs	100 000	138 000

Those cooperatives often associate within the same enterprise different types of members-stakeholders, such as the workers, the users, support institutions and sometimes even representatives from the local community, and new legislation in 8 different countries has made it legally possible.

Multistakeholder membership offers an important governance model for community activities.

6.9 Promote horizontal entrepreneurial groups among cooperatives:

Peer (horizontal) groups within and among cooperatives, bringing in business scales through horizontal (and not vertical) integration can make a big difference in “mainstreaming” the cooperative share of the economy.

Cooperative banks in Germany, France the Netherlands or Quebec, for example, are not big unitary banks, but flexible groups of many small local or regional banks, with the same system of democratic control as in primary cooperatives. This is, in fact, one of the reasons why they have so far resisted surprisingly well to the crisis.

In India, important agro-industrial activities have been ‘mainstreamed’ within the cooperative movement thanks to the gradual construction of such horizontal groups: Amul in the milk industry, and IFFCO in the fertilizer industry. In agriculture, Korean NACF, although also called federation, is in fact at the same time an entrepreneurial group as well.

Cooperative groups can be active in the most varied sectors, from medical activities (like Unimed in Brazil) to construction and public work (like CCC-ACAM in Italy), from distribution (like SOK in Finland) to services of general interest (like CGM in Italy). Some of those groups are active in various sectors, like the well-known Mondragon cooperative group (active in various industrial activities, agriculture, banking, distribution, education and research), now the 7th entrepreneurial group of Spain.

Especially under times of crisis (the ongoing one like in previous ones), cooperative groups present a number of advantages compared to isolated cooperative SMEs. In some cases (like in Mondragon), specific entities of the group can coordinate the temporary or permanent redeployment of workers from one cooperative to another one within the group.

6.10 Legislate in a gradual way

For public policies to remain stable, it is important that, at one point, they become enshrined in legislation. The above policies should also gradually be the object of specific legislation, while bearing in mind that **‘the function creates the organ’** and not the other way round. No legislation, in itself, can be a development instrument.

6.11 Develop the networking and representative role of the international cooperative institutional system

The international cooperative institutional system is the ICA system, coordinated by the head office in Geneva, and made up of its various international bodies, namely regions, global sectoral organisations, regional sectoral organisations, thematic committees, and, last but not least, the members at the national level.

The international cooperative system should strongly favour the creation of both horizontal groups and horizontal supply chains at the international level. In order to do so, an important endeavor should first be done in the field of databases and mapping, in order to identify the stronger and more globalised sectors and their geographical distribution, and then try to encourage encounters and matching activities.

6.12 Develop own standards and combat standards that are detrimental to coops

Cooperative standards (based on the Statement on the Cooperative Identity) need to be sufficiently understood and explained either through a checklist or broad operational indicators.

6.13 Strengthen coordination within the cooperative movement at all level

A strong global coordination through regional structures of the ICA carries enormous potential in the lobbying work with the governments and international organisations so as to have an impact at the global level.

6.14 Intensify cooperative development strategy at world level

The development of cooperatives is closely connected to the actors both at local and regional levels. Therefore, the cooperatives should strongly engage with all key actors of development in the world, such as multilateral organisations, NGOs etc, to convince them to promote projects linked to the development of cooperatives, and to do development through cooperatives. Cooperatives should propose their own experts in those development projects.

Conclusions

1. Cooperatives should be geared to drive through both the conventional and innovative non-conventional sectors like SMEs, health, education, technical professions, environment, special community services and infrastructure & local resource management with middle to long term strategy truly in the spirit of co-operative identity ensuring democratic controls and promoting indivisible reserves.
2. It would be a big move forward to evince interests of governments and accordingly meso and macro level measures should be based on a strong partnership with governments at all administrative levels supplemented with greater visibility and hard edged information campaign on cooperatives being proud of their modesty and emanating from humble origins.
3. Enabling policy environment of the governments on cooperatives must be maintained and accordingly the legislative features of the law on cooperatives are reviewed and improved. ICA system together with ICA members, multilateral international organizations and UN system should be used to coordinate world level lobbying and networking.

4. The cooperatives being community based must be preferred and considered for spear heading demonstrative and replicable awareness campaigns both at local and global levels on issues of global concerns like MDGs of the UN, global warming etc. in collaboration with other actors in this field.

July 21, 2009