



International  
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# Resilience of the Cooperative Business Model in Times of Crisis

## Sustainable Enterprise Programme



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Johnston Birchall<sup>1</sup> and Lou Hammond Ketilson<sup>2</sup>

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# Table of contents

Summary .....	2
Introduction .....	3
1. Cooperatives thrive in times of crisis .....	5
1.1 Employee-owned co-operatives.....	7
1.2. Cooperatives succeed only in crisis or also in crisis? .....	8
2. Why are cooperatives good in a crisis? .....	10
2.1 The cooperative model of enterprise .....	10
2.2 Cooperative performance in crisis .....	13
3. How are cooperative banks and credit unions faring in the current crisis? .....	15
3.1 Increase in assets and deposits .....	17
3.2 Significance of cooperative banks and savings and credit cooperatives for financial inclusion .....	26
3.3 The significance of cooperatives for employment creation and decent work .....	29
3.4 Policy responses .....	32
3.5 How can the ILO assist its constituency to promote cooperatives to address the crisis and recovery?.....	36



## Summary

The financial and ensuing economic crisis has had negative impacts on the majority of enterprises; however, cooperative enterprises around the world are showing resilience to the crisis. Financial cooperatives remain financially sound; consumer cooperatives are reporting increased turnover; worker cooperatives are seeing growth as people choose the cooperative form of enterprise to respond to new economic realities.

Why is this form of enterprise proving so resilient?

This report will provide historical evidence and current empirical evidence that proves that the cooperative model of enterprise survives crisis, but more importantly that it is a sustainable form of enterprise able to withstand crisis, maintaining the livelihoods of the communities in which they operate. It will further suggest ways in which the ILO can strengthen its activity in the promotion of cooperatives as a means to address the current crisis and avert future crisis.

## Introduction

The recent massive public bail-out of private, investor-owned banks has underlined the virtues of a customer-owned cooperative banking system that is more risk-averse and less driven by the need to make profits for investors and bonuses for managers. Savings and credit cooperatives also known as credit unions or SACCOs, building societies and cooperative banks all over the world are reporting that they are still financially sound, and that customers are flocking to bank with them because they are highly trusted. The point is an important one, because the cooperative banking sector is extraordinarily large; the World Council of Credit Unions has 49,000 credit unions in membership, with 177 million individual members in

96 countries. 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 worked out in Germany by Friedrich Raiffeisen. In Europe alone, there are 4200 local cooperative banks, around 60,000 branches and a market share of 20%. The banks serve 45 million members and 159 million customers.<sup>3</sup> Some of the largest banks in the world are cooperatives: Rabobank, for instance, has 50% of Dutch citizens in membership, is the largest agricultural bank in the world, and is rated the world's third safest bank.<sup>4</sup> The essence of cooperative banking is quite simple. It is that members, who include both savers and borrowers, use the cooperative to recycle money from those who have it to those who need it, without anybody outside taking a profit and with interest rates set so that the system works in everyone's interest.

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<sup>3</sup> DeVries, B (2009) *European Cooperative Banks in financial and economic turmoil*, Paper for the UN Expert Group Meeting on Cooperatives, April, New York

<sup>4</sup> By Global Finance Magazine. It is also the only privately-owned bank with the highest possible credit ratings (see OCDC, 2007)

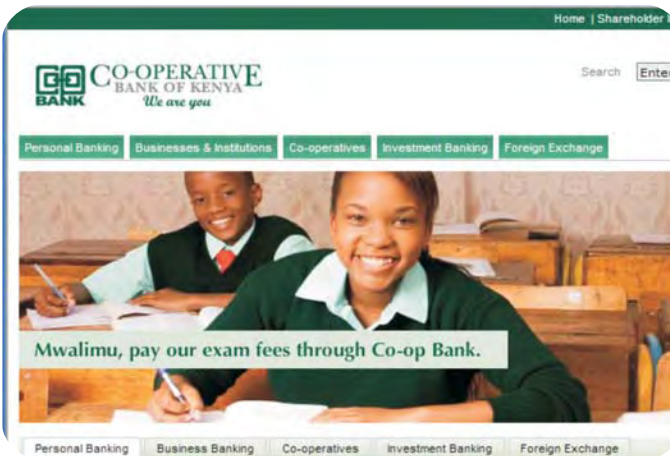
This report begins by providing historical evidence that cooperatives are good in a crisis. This sets up a plausible generalisation that they will continue to be good in the current crisis.

The report then tests out this generalisation by providing theoretical arguments and empirical evidence for and against it. It is in two parts.

In the first part, it investigates the claim that cooperative banks and savings and credit cooperatives are better able to withstand the banking crisis and economic recession than the investor-owned banks. It presents arguments for the advantages and disadvantages of 'member-owned' banks and tests these against the evidence. It finds that, so far, cooperatives are in an unusually strong position; they have not been damaged much by the banking crisis, and

are growing strongly as customers switch their business away from the discredited investor-owned banks and other enterprises to what they see as a more risk-averse and trustworthy sector.

In the second part, the report then considers two important policy aims - financial inclusion and employment creation - presenting evidence for



the importance of cooperatives in achieving them during a time of economic recession.

Finally, the report considers the policy implications of these findings for governments and banking regulators and what the ILO can do with regard the promotion of cooperatives.

# 1. Cooperatives thrive in times of crisis

During an agricultural depression in 1860s Germany, a social reformer, Friedrich Raiffeisen, provided emergency food aid to hungry farmers and their families, but then realised that what they really needed was credit to help them to modernise their methods and gain access to markets for their produce. He designed a new type of savings and credit cooperative which was enthusiastically taken up by the farmers; the idea of the rural cooperative bank spread throughout mainland Europe, and led to promotion of supply and marketing cooperatives. Together, they helped develop the modern farm economy. At the same time, another social reformer, Schultze-Delitsch, invented a similar type of cooperative bank for townspeople, providing credits to enable artisans and small business people to survive in the rapid economic changes and frequent depressions that accompanied the industrial revolution. Similarly, in the United States, during the Great Depression in the 1930s, a cooperative bank was set up with government support under the New Deal, to provide vital farm credits. At this time, the Federal Credit Union Act was passed ‘to ensure credit unions made credit available to “people of small means”’, and it is interesting to note that The Act was ‘meant to stabilize an imbalanced global financial system’.<sup>5</sup>

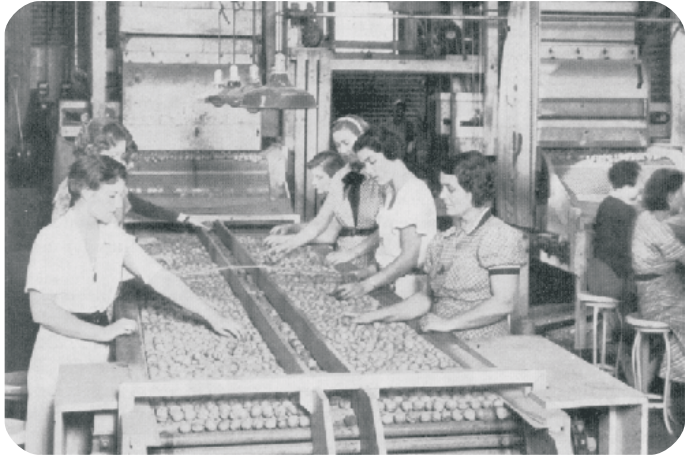
Also in the United States during the Great Depression, agricultural cooperatives began to be formed in large numbers. Cooperative farm supply purchasing grew from US\$76 million in 1924 to US\$250 million in 1934, and spread to all parts of the USA. It was around this time that Land O’Lakes emerged as a significant regional dairy cooperative. Also there was a rapid growth in petroleum cooperatives supplying farmers; by 1935 there were around 2000 of them

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<sup>5</sup> Meyer, M. (2008). Does Capitalism Need Cooperation? *Cooperative Business Journal* November/December p4



supplying products worth US\$40 million. There was government support in the form of credit, but farmers were encouraged to take control of their own cooperative banks. By 1935 there were 10,500 farmer cooperatives with a membership of 3.66 million farmers.<sup>6</sup>



Similarly, in Sweden after the price collapse of 1930, instead of cooperatives giving way to state marketing boards, cooperative federations took control in farm credit, dairy, forestry, eggs, meat and fruit, presided over by a strong National Union of Swedish Farmers.

In a more recent depression in farm prices in the US and Canada, a new type of cooperative was devised that aligns farmer share-ownership to delivery rights, thus enabling farmers to go into food processing. There are around 200 of these 'new generation' cooperatives, and they have raised the incomes of farmers dramatically and revitalised the local economies of North Dakota, Minnesota and neighbouring states.<sup>7</sup> More recently, the BSE (or mad cow) crisis in Canada was the major impetus behind cattle producers in Alberta, Canada forming several producer cooperatives in the province.<sup>8</sup>

During the 1840s in Britain, at a time of desperate economic hardship, retail consumer cooperatives began to be formed among textile workers as the only alternative to emigration or starvation. They weathered many crises, including two world wars and the great depression, coming out stronger every time until by the 1950s they had 12% of the retail trade and had given rise to similar

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<sup>6</sup> USDA Rural Development (1935) *Cooperatives help farmers survive the great depression*, accessed April 2009 at [www.rurdev.usda.gov](http://www.rurdev.usda.gov)

<sup>7</sup> Merrett, C and Walzer, N (eds, 2001) *A Cooperative Approach to Local Economic Development*, Quorum Books

<sup>8</sup> Canadian Cooperative Association (2005, Dec) *Coops in Alberta Fact Sheet*. Retrieved from: <http://www.coopscanada.coop/pdf/Sector/FactSheet/Alberta%20coops.pdf>

cooperative sectors throughout Europe.<sup>9</sup> Their ability to withstand shocks and to provide a distribution network guaranteeing food supplies led to their use in reconstruction in Germany and Japan after the Second World War. More recently, when the Soviet Union collapsed consumer cooperatives around Moscow not only survived the economic crisis but restructured and began to grow again.<sup>10</sup> Other forms of consumer cooperative have proved their worth.

During the 1930s depression electricity and telecommunication cooperatives helped transform the rural economy of the US. During the 1960s the city of New York began foreclosing on thousands of landlord-owned properties for non-payment of taxes, and landlords responded by abandoning their tenement blocks. Out of this crisis was born a cooperative housing movement that successfully housed 27,000 families. Today, cooperative ownership is the most common form of apartment ownership in New York City.<sup>11</sup>

### 1.1 Employee-owned co-operatives

During the 1970s and early 1980s in Western Europe, a fundamental restructuring of industry took place that led to mass unemployment. The response of many employees was a wave of takeovers through employee-owned cooperatives that managed to minimize the loss of jobs from industrial change. Similarly in Argentina in 2001, after a serious financial meltdown had led to thousands of bankruptcies, workers took over upwards of 200 firms and, with government support, ran them themselves (known as ‘empresas recuperadas’).<sup>12</sup> The severe recession experienced in Finland in the early 1990s after the Soviet Union collapsed led in part to unemployment reaching more than 20%. The response was a ‘new wave’ of worker cooperatives promoted and supported by the Ministry of Labour and the Finnish Cooperative Movement which led to over 1200 labour cooperatives designed to get unemployed people back into work.<sup>13</sup>

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<sup>9</sup> Birchall, J (1994) *Coop: the People's Business*, Manchester University Press

<sup>10</sup> Birchall (2003) *Rediscovering the Cooperative Advantage*, Geneva: ILO p55-57

<sup>11</sup> Coldwell Banker. *Understanding Cooperatives and Condominiums*

<sup>12</sup> Howarth, M (2007) *Worker cooperatives and the phenomenon of empresas recuperadas in Argentina*, Manchester: Cooperative College

<sup>13</sup> Birchall, J (2003) op cit p48-51

## 1.2 Cooperatives succeed only in crisis or also in crisis?

Does this mean cooperatives only succeed at a time of economic crisis? Are they a business type that people turn to when it is needed, only to return to the dominant investor-owned model when the crisis is over?

There is no evidence for this. In fact, it is the strength built up by cooperatives during the good times that helps tide them over a recession. The International Co-operative Alliance (ICA) calculated in 2004 - four years before the banking crisis - that the top 300 cooperatives in the world had around the same output as the GDP of Canada.<sup>14</sup> A study of cooperatives in 11 countries in Africa estimates that around seven percent of Africans are cooperative members and that even in countries where cooperative unions have collapsed, such as Uganda and Rwanda, the numbers have continued to grow; there were only 554 cooperatives registered in Uganda in 1995, but nearly 7,500 today. Savings and credit cooperatives are growing everywhere.<sup>15</sup>



It is true that in some countries such as the US and United Kingdom demutualisation had, over the previous decade, been a strong destroyer of cooperatives. The arguments were that cooperatives and mutuals were an out-moded business type that could not provide incentives to attract the best managers, and could not raise enough capital to compete in global markets. These arguments have come back to haunt the demutualised companies, many of which (for example Bradford and Bingley and Northern Rock in the

<sup>14</sup> See [www.ica.coop](http://www.ica.coop) for the Global 300 project

<sup>15</sup> Develtere, P, Pollet, I and Wanyama, F (2008) *Cooperating out of Poverty: the renaissance of the African cooperative movement*, Geneva: ILO



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UK) have become bankrupt, their management discredited, and their shares worthless. There is now a countertrend. Just as in the 1930s many life insurance companies mutualised in order to gain the trust of their customers, in the current crisis there are calls for remutualisation of the UK building societies

that became banks, and for the eventual mutualisation of private banks such as Lloyds Banking Group and RBS that are now mainly owned by the government.

Of course, as with any other type of business, if a cooperative is being badly managed or has serious weaknesses in its business strategy, a recession will find this out and it may fail.

The cooperative model provides comparative advantages, but no magic formula for success. However, it is interesting to see just how strongly cooperative banks, savings and credit cooperatives and credit unions are performing during the current banking crisis, and how little help they have needed from governments, in contrast to their investor-owned competitors who have had to be bailed out with staggeringly large amounts of public funding. Where cooperatives and mutuals do get into trouble, they can rely on federal bodies that provide guarantee funds or ensure they merge with others so the assets are not lost and their members are protected.

What is remarkable is that worldwide hardly any cooperative banks or credit unions have had to ask for government help. Why should the cooperative model have proved so strong?

## 2. Why are cooperatives good in a crisis?

### 2.1 The cooperative model of enterprise

Cooperatives are member-owned businesses. The simplest way to understand them is that they 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.



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The internationally recognized definition of cooperatives included in both United Nations Guidelines aimed at creating a supportive environment for the development of cooperatives (2001) and ILO R.193 (2002) and as established by the representative body for cooperatives, the International Co-operative Alliance (ICA), 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.*<sup>16</sup>

<sup>16</sup> See International Cooperative Alliance website, [www.ica.coop](http://www.ica.coop)

Cooperatives are also guided by 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.

The first four of these are core principles without which a cooperative would lose its identity; they guarantee the conditions under which members own, control and benefit from the business. The education principle is a commitment to make membership effective and so is a precondition for democratic control, while cooperation among cooperatives is really a business strategy without which cooperatives remain economically vulnerable. The last principle, concern for community, recognises that, unlike investors, cooperative members tend also to be members of a particular community. Often, one of the business aims for the cooperative is that it will meet the needs of this wider community. This does not mean that cooperatives are 'social' rather than economic, and can just be used as a tool of development. It is important to distinguish between the primary aims of the cooperative, which are to meet the members' economic needs, by-products such as improved nutrition and increased capabilities, and aggregate effects in the wider society such as lower mortality rates or higher employment levels. Paradoxically, in order to achieve these wider goals governments need to respect the autonomy of cooperatives.



The diversity of types of cooperative can be confusing, and so here is a simple way of classifying them. Apart from the investors of capital, there are three main stakeholders in a business: its consumers, the producers who supply inputs to or take the outputs from the business, and its employees. In a cooperative, usually one of these

stakeholders is put at the centre of the business. This gives us three classes: consumer cooperatives, producer cooperatives and worker cooperatives. There is one interesting complication. Financial cooperatives - cooperative banks, insurance societies and credit unions - often have in membership



people who are consumers of their products and - in their own right - producers. So farmers and small businesses can be members alongside private individuals. As long as the interests of each group do not conflict, the cooperative works well.

There are two kinds of comparative advantage to cooperatives: general ones derived from the nature of cooperatives as member-owned businesses, and particular ones derived from specific types of cooperative.

The general advantages 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.<sup>17</sup> 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 general disadvantages are the obverse of the advantages; when the purposes of the business are not aligned with those of the members, apathy or cynicism result, members lose interest and cease to participate. This leads to management pursuing their own interests, and to complacency and a reinforcement of oligarchic tendencies among the board.

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<sup>17</sup> Shah, T (1996) *Catalysing Cooperation: design of self-governing organisations*, New Delhi: Sage



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. Worker cooperatives provide people with an income, but also are a way of gaining control over the conditions under which they labour, providing 'decent work'. However, these advantages cannot always be realised; we have to take into account the extent to which cooperatives have the capacity to realise them and the intensity of competition they are facing. From an evolutionary point of view, they are in competition with other types of organisation doing the same job, and these other types also have their advantages and disadvantages.

## 2.2 Cooperative performance in crisis

There are two crises; the banking crisis and the resulting recession.

Financial cooperatives can help lessen the impact of the banking crisis. They do this by continuing to trade without the need for government bail-outs, and demonstrating that a more risk-averse sector exists that is focused on the needs of customer-members. They show that there is an alternative to the current policy of greater public regulation of private banks, while in many countries also providing banking and insurance to low income people who would otherwise be unbanked.

Cooperatives can lessen the impact of the recession by the mere fact that they survive and continue to carry out business. There is evidence that cooperatives in all sectors survive better than their competitors; the rate of survival of new



start ups is better, and the longevity of cooperatives is impressive. They 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.<sup>18</sup>

It is generally agreed that the recession will hit developing countries hard. It can be countered by continued strengthening of the savings and credit/credit union/SACCO 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 North and South, through technical assistance, product development and fair trade. There are also great opportunities to continue the development of mutually owned utilities such as electricity and water.



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<sup>18</sup> See Birchall, J (2009) *Discussion paper at the Expert group meeting on 'Cooperatives in a World in Crisis'*, 28-30 April 2009, New York

### 3. How are cooperative banks and credit unions faring in the current crisis?

When former US Federal Reserve Chairman Alan Greenspan went before Congress in October 2008, he 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.<sup>19</sup>

The type of ownership and methods of capitalization are two of the key factors that have created the disparity in the financial positions of credit unions and banks, to the advantage of savings and credit cooperatives or credit unions. Because these are member owned they tend to be more risk averse compared to other financial institutions.<sup>20</sup> savings and credit cooperatives are not driven by profits or shareholder interests so they do not feel compelled to force people into inappropriate loans.<sup>21</sup> Thus, savings and credit cooperatives have stayed away from offering the riskier sub-prime loans. They have a different kind of governance structure, in which local credit unions and cooperative banks scrutinise the decisions of the central institutions. In this way, they are more aware of the fact that the loan they offer to their members is another member’s money. The direct link of savings and loans, which may not be as apparent in some banks, acts as a moral constraint.

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<sup>19</sup> McCabe, D (2009) *Economics Shrugged*, in University Affairs, April

<sup>20</sup> Coombes, A. (2008, April 27). *Given Turmoil at Banks, Time May Be Right to Try a Credit Union*. MarketWatch. Retrieved from: <http://www.foxbusiness.com/story/markets/industries/finance/given-turmoil-banks-time-right-try-credit-union/>

<sup>21</sup> McDougall, P. (2008, September 12) *Credit Unions Take On Big Banks*. TheStreet.com. Retrieved from: <http://www.thestreet.com/story/10437101/1/credit-unions-take-on-big-banks.html>

Cooperative banks and savings and credit cooperatives are not reliant upon the capital markets for funding, but are funded through member deposits.<sup>22</sup> They are strong in retail banking, which is characterised by stable returns and comparatively good access to savings and deposits. They are not able to go to the markets to obtain easy money from investors, and so they tend to retain their profits and take fewer risks.<sup>23</sup> This is one reason why they also have higher capital reserve criteria. Another example of their aversion to risk is their additional deposit guarantee schemes that serve as extra security.

Ferri (circa 2006) offers three reasons why cooperatives may be beneficial during a credit crunch. In comparison to banks, savings and credit cooperatives or credit unions: (a) tend not to freeze credit (b) have lower increases in interest rates and (c) are generally more stable due to different capitalization and lending practices.

Reports from the credit union system in both Canada and the US seem to support these three propositions.<sup>24</sup>

Reports indicate that during the economic turmoil, savings and credit cooperatives, credit unions and cooperative banks have experienced an increase in almost every facet of their business including: increase in assets and deposits; increased volume of lending; increase in membership; a better rate of interest; and greater stability (measured by capital adequacy ratios, and loan de-



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<sup>22</sup> John Radebaugh from the North Carolina Credit Unions League (NCCCUL) *Credit Unions in Good Shape*, 2008

<sup>23</sup> deVries, op cit p2

<sup>24</sup> Ferri, G. (n.d.). *Why Cooperative Banks Are Particularly Important at a Time of Credit Crunch*. Retrieved April 17, 2008 from: <http://www.eurocoopbanks.coop/GetDocument.aspx?id=56d29cf3-4c7d-44a4-8a60-d0e4601fba6c>

fault rates). They have had very few losses on investments and so far very few have needed government help.

### 3.1 Increase in assets and deposits

In Canada, 516 credit unions and caisses populaires outside of Quebec saw a six-month increase in assets in the second quarter of 2008.<sup>25</sup> Similar reports from the provincial savings and credit cooperatives or credit union associations, called Centrals, highlight the stability of the system. In Manitoba for example, the 48 credit unions saw assets, loans and deposits increase by 10 percent or more in 2008.<sup>26</sup> For credit unions in Saskatchewan, net income and total assets in 2008 were the highest ever.<sup>27</sup> It was also a record year for credit unions in British Columbia where 2008 earnings increased by 10 percent to reach an all-time high for the province.<sup>28</sup>

With an increase in member numbers, deposits and assets of these financial institutions is also on the rise. Credit Union National Association in the US expects deposits in credit unions to increase by 10 percent in 2009.<sup>29</sup>

Credit unions in Manitoba saw their deposits increase by 11.5 percent to Canadian \$13.4 billion in 2008.<sup>30</sup>

The picture is similar in Europe. In 2008, Rabobank (Netherlands) saw its share of loans increase to 42% of the market, and its local member banks recorded a sharp influx of savings of 20%. In the UK, the very low interest rate set by the Bank of England has discouraged savings, but the building societies' share of the retail savings market increased from 20.2% at the end of February 2008 to 21.4% at the end of February 2009. More deposits mean greater liquid-

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<sup>25</sup> Credit Union Central of Canada (2009) Largest 100 Credit Unions / Caisses Populaires System Results Fourth Quarter 2008

<sup>26</sup> Kirbyson, G. (2009, March 25). *A Good Year for Manitoba's Credit Unions*. Winnipeg Free Press. Retrieved from: <http://www.winnipegfreepress.com/business/a-good-year-for-manitobas-credit-unions-41816297.html>

<sup>27</sup> Johnstone, B. (2009, April 8). *Sask. credit unions post record income*. Leader-Post. Retrieved from: [http://www.leaderpost.com/story\\_print.html?id=1479192&sponsor=](http://www.leaderpost.com/story_print.html?id=1479192&sponsor=)

<sup>28</sup> Anderson, F. (2009, April 21). *B.C. credit unions enjoy record earnings for 2008*. Vancouver Sun. Retrieved from: <http://www.vancouversun.com/Business/credit+unions+enjoy+record+earnings+2008/1517578/story.html>

<sup>29</sup> Knappe, C. (2008, December 7). *Credit unions grow as financial storms batter banks*. The Grand Rapids Press. Retrieved from: [http://www.mlive.com/grpress/business/index.ssf/2008/12/grand\\_rapids\\_credit\\_unions\\_gro.html](http://www.mlive.com/grpress/business/index.ssf/2008/12/grand_rapids_credit_unions_gro.html)

<sup>30</sup> Kirbyson, 2009 op cit

ity for savings and credit cooperatives, credit unions and cooperative banks, and so more money is available for lending.

### *Volume of lending*

While a credit freeze by the large banks has been one of the characteristics of the financial crisis, this has not been the case for the majority of financial cooperatives in the United States and Canada. In the US, loans by credit unions increased from US\$539 billion in 2007 to US\$575 billion in 2008. By comparison, 8,300 U.S. banks saw loans outstanding decrease US\$31 billion last year, to US\$7.876 trillion from US\$7.907 trillion in 2007.<sup>31</sup> Here is another way of putting the same point: credit union loan volume increase 6.7% in 2008 while lending from US Federal Deposit Insured Corporation (FDIC), or banks dropped by 40 basis percentage points.<sup>32</sup> Davide Phillips, president and Chief Executive Officer (CEO) of Credit Union Central of Canada affirmed to a parliamentary committee that credit unions had not restricted their lending to businesses despite the economic turmoil.<sup>33</sup> Garth Manness, CEO of Credit Unions Central of Manitoba, explains “Most financial institutions were short of lending capital and had trouble financing lending. Our credit unions had the liquidity to be able to meet lending demand”.<sup>34</sup> Small businesses are a driving force in the economy and in employment creation.

It is crucially important that lending to this sector continues. In Canada, many credit unions have increased the number of loans to small businesses; in British Columbia by 10 %.<sup>35</sup>

Credit unions in the United States have reported a substantial increase in the number of mortgages and car loans. First mortgage lending rose 40 percent in first half of 2008 while the overall market was down

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<sup>31</sup> Marte, J. (2009, March 15). Safe Havens: Credit Unions Earn Some Interest. Wall Street Journal. Retrieved from: <http://online.wsj.com/article/SB123708535764231521.html>

<sup>32</sup> Kashner, E. (2009, March 16). “Credit Unions vs Banks: A Competition of Value.” Creditunions.com March, 16. Retrieved from: <http://www.creditunions.com/article.aspx?articleid=3000>

<sup>33</sup> Canadian Cooperative Association (2009) Credit Unions Maintain Business Lending Parliamentary Committee *Told Cooperative News Briefs*: 10 (8)..

<sup>34</sup> Kirbyson, 2009 op cit

<sup>35</sup> Anderson, 2009 op cit



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17 percent.<sup>36</sup> Following reports that the large auto leasing companies in the US such as GMAC Financial Services and Chrysler Financial Services have restricted their lending activities, more car and boat dealers are reliant on credit unions for their business.<sup>37</sup> Others have turned to the credit union simply

because their bank would no longer work with them. Credit unions are also attracting customers who may not have considered credit unions in previous years. Cliff Rosenthal, chief executive of the National Federation of Community Development Credit Unions in the US says that more people are turning to credit unions for mortgages. Bill Hempel, chief economist of Credit Union National Association said that business lending was up 36 percent in the first half of 2008.<sup>38</sup>

It is a similar picture in other parts of the world. Taiwan Cooperative Bank is the second largest bank in Taiwan; it is now granting mortgages with an initial minimum of 1.5% for six months, and is competing aggressively with the Bank of Taiwan. In Europe, Rabobank has seen its market share in loans increase to 42%, and in mortgage lending to 29% in 2008 while Groupe Desjardins in Canada remained a dominant player in Québec with a 39.3% market share in residential mortgage credit, 46.9% in farm credit and 43.9% in personal savings<sup>39</sup>.

<sup>36</sup> Carey, N. (2008, November 17). As US banks retreat, credit unions step up loans. Reuters. Retrieved from: <http://www.reuters.com/article/ousiv/idUSTRE4AF22120081116>

<sup>37</sup> Witkowski, R. (2009, April 17). Credit unions making loans where banks fear to tread. *Jacksonville Business Journal*. Retrieved from: <http://jacksonville.bizjournals.com/jacksonville/stories/2009/04/20/story3.html>

<sup>38</sup> Meyer, 2008 op cit

<sup>39</sup> Desjardins Group. Desjardins Group Announces Surplus Earnings Before Member Dividends of \$78 Million for 2008 retrieved from [http://www.desjardins.com/en/a\\_propos/salle\\_presse/la\\_une/communiqués/resultats-financiers-2008.pdf](http://www.desjardins.com/en/a_propos/salle_presse/la_une/communiqués/resultats-financiers-2008.pdf)

## Increase in membership levels

Loan accessibility, competitive rates, and institutional stability have translated into an increase in membership in savings and credit cooperatives. Taking the US as a whole, membership in credit unions rose to almost 90 million in 2008, from 85 million in 2004. 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.<sup>40</sup>

In previous banking crises, such as the Asian crisis of the 1990s, there was a ‘flight to quality’ among savers. The growing membership of banking cooperatives suggests that this is also occurring in the present crisis. Consumers are looking for safer and more ethical alternatives to the banks and are turning to cooperative financial institutions.<sup>41</sup>

Drops in stock prices have also driven investors to withdraw from the stock market and put their money into cooperative savings and credit or credit union savings accounts.<sup>42</sup>



<sup>40</sup> Raiffeisen Switzerland. Annual Report 2008 retrieved 14 May 2009 from [http://www.raiffeisen.ch/raiffeisen/INTERNET/home.nsf/0/E6B7C897EAA5468DC125758B005C59B4/\\$FILE/low\\_verband\\_2008\\_en.pdf](http://www.raiffeisen.ch/raiffeisen/INTERNET/home.nsf/0/E6B7C897EAA5468DC125758B005C59B4/$FILE/low_verband_2008_en.pdf)

<sup>41</sup> Hyden, G. (1988). “Approaches to Cooperative Development: Blueprint versus Greenhouse” in Attwood D.W. & Baviskar B.S., (eds.), *Who Shares? Cooperatives and Rural Development*, Oxford University Press, Delhi.

<sup>42</sup> World Council of Credit Unions (2008, Oct 1) U.S. Credit Unions Poised to Prosper During Economic Downturn, CUNA’s Rick Tells WOCCU Webinar Audience, WOCCU News Release.

## Better interest rates, compared to competitors



As banks continue to suffer huge losses they have increased interest rates and lowered credit limits on consumer credit cards to make up some of these debts.<sup>43</sup> Savings and credit cooperatives have no need to do this, and a comparison of interest rates at credit unions and banks conducted by the banking industry in the United States

showed that credit unions consistently had better rates than the banks did.<sup>44</sup> In other words, credit unions are meeting the current demands of the market for good rates, low risk and personal service while banks are increasing fees to make up for losses.<sup>45</sup> Also, the net interest margins (the difference between deposit and loan interest rates) are lower in credit unions.<sup>46</sup>

The disparity of rates is not just a North American phenomenon. High interest rates and bank spreads was one of the main impetuses behind small business owners and low income families forming savings and credit cooperatives in Brazil; here, banks' personal interest rates are at about 8 percent compared to the cooperatives' rate of 4 to 5 percent.<sup>47</sup>

<sup>43</sup> Blackwell, L. (2009, April 21). Banks Passing on Credit Card Debt to Consumers. WTVY.com. Retrieved from: <http://www.wtvynews4.com/news/headlines/43387632.html>

<sup>44</sup> O'Connell, B. (2009). Do Credit Unions Offer a Better Deal? bankingmyway.com. Retrieved online April 20, 2009 at: <http://www.bankingmyway.com/article/04/17/do-credit-unions-offer-better-deal>

<sup>45</sup> McDougall, 2008 op cit

<sup>46</sup> Kashner, 2009 op cit

<sup>47</sup> Braga, M., V. Fully Bressan, E. Colosimo, and Bressan. (2006). Investigating the Solvency of Brazilian Credit Unions Using a Proportional Hazard Model. *Annals of Public and Cooperative Economics*. 77 (1): 83-106.



## Stability, measured by capital adequacy ratios, and loan default rates

If the saving and credit cooperative system is posting impressive numbers in one of the worst financial environments in history it suggests an underlying stability of these institutions. Capital adequacy ratios are one way of measuring the stability of financial institutions. In its Financial Stability Review the Reserve Bank of Australia stated that credit unions and building societies had higher ratios than the banks and non-performing home loans were lower as well.<sup>48</sup>

Similarly, US credit unions remain well capitalized. Loan delinquency rates are increasing but are still less than half the rate for banks.<sup>49</sup> For example, credit unions in California have a capital-to-asset ratio of 10.5 percent that well exceeds the 7 percent ratio needed to be classified in the highest category of “well capitalized”.<sup>50</sup>

Financial cooperatives in South America are also seen as secure institutions even during the economic crisis. For 2008, the rating outlook for the Federación Uruguaya de Cooperativas de Ahorro y Crédito (FUCAC) was stable. It has recorded profits for the past five years and has an equity/assets ratio of 49.4 percent.<sup>51</sup>



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<sup>48</sup> Why Credit Unions are a Good Bet in Bad Times. (2009, March 28). *Business Day - Sydney Morning Herald*. Retrieved from: <http://business.smh.com.au/business/why-credit-unions-are-a-good-bet-in-bad-times-20090327-9e5c.html>

<sup>49</sup> Marte, 2009 op cit

<sup>50</sup> Freeman, M. (2009, April 17). Economic heat encroaching, credit unions seek U.S. help. *The San Diego Union-Tribune*. Retrieved from: <http://www3.signonsandiego.com/stories/2009/apr/17/1n17credit0068-credit-unions-starting-feel-economi/?business&index=83787>

<sup>51</sup> Fitch Affirms Uruguay's FUCAC's IDRs at 'B'; Outlook Stable. (2009, April 27). *Business Wire*. Retrieved from: <http://www.pr-inside.com/fitch-affirms-uruguay-s-fucac-s-idrs-r1211176.htm>

### *Losses made, and the need for government support*

The World Council of Credit Unions reports “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”. In Brazil the savings and credit cooperatives have not been significantly impacted by the crisis. They have high liquidity and have stable short- and medium term financing.<sup>52</sup> However, in the US an inter-cooperative guarantee fund has needed state aid to compensate for losses incurred on the money market. In Europe, the cooperative banks have satisfactory solvency ratios and are not forced to resort to the recapitalisation plans introduced by governments, though in a few instances (in Austria and France) they have done so ‘with the intention of sustaining a rate of growth in their lending tailored to a severely degraded and risky environment’.<sup>53</sup>

Losses have been made at the level of central cooperative banks and credit unions. In Canada most provinces have a Central which is owned by the credit unions and operates as a type of central banks to the system. Centrals provide financial and technological products and services, as well as managing liquidity and investment for the individual credit unions. The corporate credit unions in the US play a similar role, and their investment activity exposed them to the same markets that have devastated the banking system. SaskCentral, one of the provincial Centrals in Canada, posted a loss of over C\$45 million as it had a 51% million write-down on investments in asset backed commercial paper.<sup>54</sup> Desjardins in Quebec also experienced significant losses, however guaranteed repayment of the initial capital its customers invested in the ailing hedge funds that it offered to it 5.8 million customers.

In the US, the two corporate credit unions, US Central Credit Union and Federal Credit Union were seized by US regulators at the beginning of 2009; the two institutions were involved in the kind of mortgage backed securities that got banks into trouble.<sup>55</sup> The US Central Corporate Credit Union is to get US\$1 billion in government aid, but it is interesting to note that the losses are not

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<sup>52</sup> WOCCU 2009: 1

<sup>53</sup> DeVries (2009), op cit p4

<sup>54</sup> Johnstone, op cit 2009

<sup>55</sup> Kane, M. (2009, March 26). Credit Union Collapse Signals Depth of Financial Crisis. *The Washington Independent*. Retrieved from: <http://washingtonindependent.com/35928/credit-union-collapse-signals-depth-of-financial-crisis>

due to a failure in corporate governance; at the time the investments were rated as low risk products. The US credit unions have a three tier system; there are 8,400 primary societies, 27 corporates and the Centrals. The corporate credit unions invested US\$64 billion from their members in mortgage-backed securities, and as these have declined in value by US\$18 billion they are being forced to acknowledge the decline.

In other parts of the world, cooperative banks have also posted losses, but again only at the level of highest level of their structures and its subsidiaries, not at the level of the local banks. The write-offs have so far been bearable in relative terms. In Germany, the cooperative central bank, DZ, announced a loss of Euro1 billion for 2008 as a consequence of high risk investments. DZ is a joint stock company owned by cooperative banks, and they will have to share the loss. Similarly, in Japan the Norinchukin Bank has lost US\$6.5 billion on investments and securitized products, making it the biggest loser in Asia from the crisis. The bank had continued to buy toxic assets while other banks disclosed losses, because the assets were bought cheap, and its managers under-estimated the severity of the crisis. It is owned by 32 million farmers and fishers through their producer cooperatives, and they will have to find 1.9 trillion yen of financial support which they believe will be possible. While the bank is still able to guarantee a return on its members' assets, it is unable to pay a dividend in 2009, and this will put pressure on a not very profitable farming sector.

These are exceptions. The global picture is of a sector which has not yet been seriously affected by the crisis. It has high liquidity and a healthy loan growth. However, as the recession deepens and lengthens, it is likely to have to deal with increased loan delinquency, and eventually a falling off in deposits as members' incomes begin to decline. Also, perversely, cooperatives have to compete with bankrupt investor-owned banks that have been recapitalised by governments which are offering very high deposit rates and forcing others to follow; this is unfair competition.<sup>56</sup>

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<sup>56</sup> deVries (2009)

In developing countries, credit unions will continue to be crucial to their members' wellbeing, and their savings-led approach to development should lead them to survive while conventional banks collapse.<sup>57</sup> Indeed in some countries including the Bahamas<sup>58</sup> Philippines<sup>59</sup> and Kenya, government officials are lauding the performance of savings and credit cooperatives and encouraging their citizens to bank with them.

### *What savings and credit cooperatives and cooperative banks are doing to cope with the crisis*

In response to the crisis, there is an immediate refocusing of the business, and we can predict that the sector will sell off subsidiaries that are not part of the core business. It will increase its capital base to make it more risk-averse including through mergers, and will make efforts to achieve cost reductions. One interesting effect of the recession is that cooperatives everywhere are rediscovering their core values as member-owned businesses, and are making these part of their business strategy. In Europe, there is a growing commit-

ment to social responsibility including the financing of environmentally friendly projects. In general, there is a growing confidence in the cooperative business model and a sense that it is going to be a key player in the restoring of confidence in the banking system.



<sup>57</sup> See Crear, P (2009) *Cooperative Banks, Credit Unions and the Financial Crisis*, Paper for the UN Expert Group Meeting on Cooperatives, April, New York

<sup>58</sup> McKenzie, T. Cooperative Regulators Dash CLICO Reports. *The Bahamas Journal* Retrieved from <http://www.jonesbahamas.com/news/45/ARTICLE/19394/2009-03-12.html>

<sup>59</sup> Negros Chronicle. GARY TEVES: Cooperatives Less hit by Global crisis. Retrieved from <http://www.negroschronicle.com/?p=4540>

### 3.2 Significance of cooperative banks and savings and credit cooperatives for financial inclusion

The poor are the most vulnerable to economic instability. The global economic crisis may force more than 50 million additional people into poverty and thwart any major progress in achieving the United Nations Millennium Development Goals of 2015.<sup>60</sup>

Savings and credit cooperatives are particularly good at reaching the poor. A membership survey in Colombia, Kenya and Rwanda found that half of members live below the national poverty lines, nearly half are first time users of financial services, one third live in rural areas, and nearly a third have a micro-entrepreneur in their household. 37% of respondents are women, and one in four have a primary school education or less. At the same time, because they also include higher income members they are able to provide a range of affordable financial services to members while keeping costs low. They are also able to help create a middle class in societies, thus contributing to political and economic stability.<sup>61</sup>



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Particularly noteworthy is the remittance system, whereby savings and credit cooperatives provide low cost money transfers from people working in developed countries and sending part of their wages home. Since this began in 2001, over US\$2 billion has been transferred.<sup>62</sup> For many people in develop-

<sup>60</sup> Schifferes, S. (2008, February 12). Crisis 'to trap 53m in poverty'. *BBC News*. Retrieved from: <http://www.stwr.org/poverty-inequality/global-financial-crisis-pushing-millions-into-extreme-poverty.html#bbc>

<sup>61</sup> Crear (2009) op cit

<sup>62</sup> See also Birchall J (2004) *Cooperatives and the Millennium Development Goals*, Geneva: ILO for a case study of remittances

ing countries in Latin America remittances from family members abroad are an essential part of the household income. Estimates put the total value of all remittances from the US to Mexico, Central America, and the Caribbean at around US \$15 billion. Lower services fees on remittance transactions can therefore have a significant impact on low income families. Credit unions and cooperatives charge the lowest fees compared to banks and remittance service companies.<sup>63</sup>

A lesson that can be taken from the subprime mortgage debacle is that too much emphasis was placed on access to credit and marketing strategies to get people comfortable about having personal debt. In looking at poverty reduction strategies, Jones states that one of the fundamental shifts in the philosophy of savings and credit cooperatives and their role in poverty reduction was an emphasis on savings rather than loans.<sup>64</sup> Previously, savings and credit cooperatives assumed that offering low-cost loans to the poor was the key to getting them out of poverty as it was believed that lack of access to credit and a reliance on subprime lenders kept the poor impoverished. Increasingly savings and credit cooperatives are coming to understand that savings and the accumulation of assets should be the priority as this is what ultimately will pull people out of poverty.

Marginalized groups—people in the inner-cities, ethnic populations and rural citizens have already witnessed a pulling out of banking institutions in their communities and the current crisis will only exacerbate the problem. The credit freeze will disproportionately hurt those who are considered a credit risk leading to even greater financial exclusion and marginalization. Jones also argues that there is a direct correlation between financial exclusion and poverty. Financial exclusion is both a result of poverty and a cause of greater poverty. Thus, finding ways to create, and foster financial inclusion is an essential part in alleviating poverty. Simply having a bank account can lead to greater financial security.

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<sup>63</sup> Orozco, M. (2002). Attracting remittances: Market, money and reduced costs. Multilateral Investment Fund of the Inter-American Development Bank. Washington D.C. Retrieved from: [http://www.rree.gob.sv/sitio/img.nsf/vista/documentos/\\$file/market%20money%20and%20costs.pdf](http://www.rree.gob.sv/sitio/img.nsf/vista/documentos/$file/market%20money%20and%20costs.pdf)

<sup>64</sup> Jones, P. (2008). From tackling poverty to achieving financial inclusion—The changing role of British credit unions in low income communities. *The Journal of Socio-Economics* 37: 2141-2154.

Here are three examples that show the potential of savings and credit cooperatives among poor people. Sistema de Cooperativa de Crédito (SICREDI) in Brazil is a network of 130 financial cooperatives with approximately one million members, half of which are in the rural areas. SICREDI has been a picture of growth and profitability in recent years. It nearly doubled its membership between 2001 and 2005. Deposits and loans also increased during this period and the consolidated profits for 2005 were just over US\$64 million. The conclusion is that financial cooperatives can deliver quality products and services to the rural communities while still being profitable.<sup>65</sup>



Ecuador went through an economic crisis during the 1980's and 1990's which forced many banks to file for bankruptcy.<sup>66</sup> By 1999, nearly half of the 38 banks in the country had failed. Similar to the current global crisis, access to credit was limited, and trust in the banking system dropped significantly.

However, the credit unions in the country remained relatively stable, which the credit unions attributed to the financial controls and supervision they had established before the crisis occurred. The credit union system and village banks are providing financial services in small rural communities that have little or no access to other financial institutions.

<sup>65</sup> Nair, A. and R. Kloeppinger-Todd. (2007). Reaching Rural Areas with Financial Services: Lesson from Financial Cooperatives in Brazil, Burkina Faso, Kenya and Sri Lanka. Agriculture and Rural Development Discussion Paper 35. The World Bank.

<sup>66</sup> Klaehn, J. (2006). Credit Unions Reach Out to Poor Women. CUFocus. Autumn. pp. 28-29. Irish League of Credit Unions. Retrieved from: [http://www.creditunion.ie/files/20061109031401\\_CUFocus\\_Autumn.pdf](http://www.creditunion.ie/files/20061109031401_CUFocus_Autumn.pdf)

VanCity, the largest credit union in Canada, was established in the 1940's because the major banks refused to lend to the poorer areas in the city of Vancouver. Still today with assets in the billions of dollars, the credit union remains committed to ensuring that the marginalized groups of people have access to financial services. VanCity's established an Accessibility Programme to meet these commitments which includes making sure that services are accessible as possible, introducing microfinance schemes and working with other community groups to connect with hard-to-reach people such as new immigrants.<sup>67</sup>

### 3.3 The significance of cooperatives for employment creation and decent work

The sound health of the cooperative banks and credit unions is good news for employment creation as they are crucial for enabling SMEs to expand. In Europe, for instance, 29% of cooperative bank lending is to SMEs and the main focus is on local, domestic markets.<sup>68</sup>

What about the contribution of other types of cooperatives? The evidence so far in the current recession is that there has been an increase in the numbers of cooperatives being formed, and they tend to last longer than other types of business. In Germany, the cooperative business model is 'seen to provide stability and security in tough times', and is expanding into new fields within the SME sector. There are 8,000 cooperatives with around 20 million members. 250 cooperatives were created in 2008, double the numbers started in 2007. Also, cooperatives last longer; while in 2005 1% of businesses were declared insolvent, the figure for cooperatives was less than 0.1%.<sup>69</sup> On the other hand, in Spain, where there are over 18,000 worker cooperatives employing 300,000 people, there was a slight fall in the number of new cooperatives in 2008 of 1.7%. However, the fall in start-ups for conventional companies was 7%.<sup>70</sup>

A major study by the Québec government showed that cooperative businesses tend to last longer than other businesses in the private sector. "More than 6

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<sup>67</sup> Canadian Cooperative Association. (2003). *Building Assets in Low Income Communities: Policy research on the cooperative model*. A Building Community Assets Research Report.

<sup>68</sup> deVries (2009) op cit

<sup>69</sup> Marquardt, S and Sinico, S (2009) *More German firms turn to cooperatives in tough economic times*, found at [www.dw-world.de](http://www.dw-world.de)

<sup>70</sup> Worker cooperatives face the economic crisis, found at [www.cicopa.coop](http://www.cicopa.coop)



out of 10 cooperatives survive more than five years, as compared to almost 4 businesses out of 10 for the private sector in Québec and in Canada in general. More than 4 out of 10 cooperatives survive more than 10 years, compared to 2 businesses out of 10 for the private sector.”<sup>71</sup> One of the reasons for this longevity could be that cooperatives are not purely motivated by achieving the maximum rate of profit. Rather cooperatives also have goals of serving their community and meeting the needs of their members.

Where can we expect the growth points in cooperative development to be, during the recession?

Just as in previous recessions, we can expect an increase in worker takeovers of ailing companies. For instance, Cantende-Harmonia is Brazil’s largest worker-managed business in the country. The company is an agricultural cooperative involved in sugar production and providing employment to 4,300 families.



The workers took over the ailing company in 1993 in order to protect the workers’ jobs. The Labour Ministry of Brazil estimates that there are approximately 200 cases of workers taking control of a private business.<sup>72</sup>

We can also expect an increase in the number of women’s cooperatives being formed to increase their incomes. For instance, in state of California in the US, the Women’s Action to Gain Economic Security (WAGES) has focused on funding worker cooperatives to help low income women increase their earning potential. The cooperatives, which are mainly eco-friendly housecleaning en-

<sup>71</sup> A study conducted by the Ministry of Industry and Commerce, Government of Québec, 2008 Contributors: Lise Bond, Michel Clément, Michel Cournoyer, Gaétan Dupont

<sup>72</sup> Osawa, M. (2008). “Development-Brazil: Solidarity Economy Combats Exclusion.” IPS News. January 11. Retrieved online April 28, 2008 at: <http://ipsnews.net/news.asp?idnews=40760>

terprises, have raised the household incomes of members by 40 percent and it is estimated that the worker-owners are earning 50 to 100 percent more than they working for other housecleaning businesses.<sup>73</sup> In addition to higher wages members also receive health insurance and other benefits and the opportunity to learn skills needed to run a successful business. In a failed toy store in Hingham Square, Boston in the United States, four women have opened a cooperative which they hope will serve as an incubator for other mothers with business ideas.<sup>74</sup>

We can also expect an increase in the number of communities turning to cooperatives to safeguard their local economies. For example, in Canada's remote northern communities, where cooperatives form the backbone of the local economy, 2008 was a banner year for Arctic Cooperatives Limited, and the 31 Inuit and Dene owned and controlled cooperatives located in Nunavut and the North West Territories in Canada's Arctic. ACL and its member cooperatives experienced the best year in its 50 year history. Revenue from all business units of the 31 community owned cooperatives was C\$164 million, an increase

of 12% from 2007. The cooperatives are an important economic engine in the Arctic. Local coops paid C\$22 million in wages, returned C\$8.1 million in patronage dividends and invested more the C\$4 million in new and expanded infrastructure, including retail stores, hotels, warehouses and other fixed assets.<sup>75</sup>



<sup>73</sup> Todd, A. (2007). Housecleaning coop members see income, benefits rise sharply. Rural Cooperatives. March/April. Retrieved from: [http://findarticles.com/p/articles/mi\\_m0KFU/is\\_2\\_74/ai\\_n19022190/](http://findarticles.com/p/articles/mi_m0KFU/is_2_74/ai_n19022190/)

<sup>74</sup> [www.boston.com/news/local/articles/2009/02/26/theyre\\_going\\_to\\_work\\_on\\_their\\_own\\_terms/](http://www.boston.com/news/local/articles/2009/02/26/theyre_going_to_work_on_their_own_terms/)

<sup>75</sup> Arctic Cooperatives Limited/Arctic Cooperatives Development Fund 2008 Annual Report, page 7.

What can governments do to help the employment creation process through cooperatives?

The Finnish experience of labour cooperatives is potentially of great interest in this respect. As previously noted, Finland suffered badly from a deep recession caused in part by the breakup of the Soviet Union; a large part of its export market was lost. Then, when Finland joined the EU in 1995 there was the impact of deregulation of markets. Unemployment, which had been around 3% in the late 1980s, rose to over 20%. The numbers of employee-owned cooperatives soared to around 1400, of which 1,230 were labour coops. They are a fascinating combination of job seekers clubs, employment agencies and training agencies. Unemployed people become members. The cooperative then finds them temporary work, renting out their labour by the day or hour like a private employment agency. They operate mainly in construction and office work, but also in computer services, accounting, cleaning, social services, and maintenance work. In 2001 they provided work for 3,300 full time and 4,400 part time members. Support for them is part of public policy.<sup>76</sup>

Sweden has a network of 25 cooperative development agencies that has been promoting worker cooperatives since 1985. Together they support the startup of between 200 and 400 new coops each year. There are around 500 cooperatives in membership of their Association, most of which are worker cooperatives. However, they do not limit themselves to worker cooperatives but promote other types such as consumer, producer or multi-stakeholder cooperatives.<sup>77</sup> Taken together, the Finnish and Swedish experiences can show the potential of employment creation through cooperatives.

### 3.4 Policy responses

Governments that wish to promote cooperatives of all types and around the world already have guidance in the form of ILO Recommendation 193 on the Promotion of Cooperatives.

Passed in 2002, this recognises that governments should provide a supportive framework for cooperative development, but insists that cooperatives are autonomous associations of persons that have their own values and principles. This means that promotion should not involve direct support to the business but capacity building that enables members to make the cooperative succeed

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<sup>76</sup> Birchall (2003) op cit pp48-51

<sup>77</sup> Slup.se website explains

for them. Grants, loans or other sources of funding may sometimes be needed, but a primary goal of governments, NGO's and other development agencies should be organizational self-sufficiency at the earliest possible stages of the cooperative's development; cooperatives must be established with the intent of being viable businesses.

In developing countries in particular, there must be no return to the discredited policies of the past, when cooperatives were turned into parastatals controlled by governments and politicians, and treated as 'tools' of economic development.<sup>78</sup> It is important to note that the early development of cooperatives in the United States and Canada were predominantly local initiatives of people who had a common need.<sup>79</sup> Similarly, the cooperative banks of continental Europe were created by local people, who then created their own central banks to supply them with joint services. In both cases, promoters such as Raiffeisen in Germany, Desjardins in Canada and Gebhard in Finland concentrated on spreading the idea, educating people to run their cooperatives, and making sure that enabling legislation and a fair regulatory system were put in place. Thus a central role for government is also to ensure that cooperatives are included in school curricula at every level to enable to young people to look to the cooperative option for entrepreneurial activities.

In general, governments should identify a focal point for cooperatives with the government and provide focused assistance to the cooperative sector. They should recognize the importance of cooperative top-level or apex organizations and federations in the development of the cooperative sector and provide technical and financial assistance to these organizations. Cooperative federations may be more attuned to the needs of their members than other groups and can effectively provide their cooperative members with specifically designed support. They can offer some stability for smaller cooperatives during tough economic times, and may be better at coordinating outside funding and delivering to first tier coops that require assistance, rather than development agencies targeting local cooperatives in an uncoordinated manner.

In particular, governments should develop policies that recognise the particular nature of cooperatives. They should not be over-regulated, and their essentially risk-averse nature should be understood.

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<sup>78</sup> Birchall (2003) op cit

<sup>79</sup> Hyden, G. (1988) op cit

With regard to savings and credit cooperatives and cooperative banks in particular, these need direct access to payment, clearing and settlement systems, in particular to card networks. In a recent study, savings and credit cooperatives in 41 out of 60 countries did not have this kind of access. In order to be successful and to reach those who are financially excluded, they must have the same opportunities as their competitors to offer a broad range of financial products and services.<sup>80</sup> They also need direct access to their central bank's liquidity window. In developing countries, restrictions on lending to small businesses need to be lifted so they can lend to this sector. Access to deposit insurance systems needs to be on a par with that of commercial banks. They need to be able to access and issue alternative forms of capital in markets where they can prove they can manage such capital.<sup>81</sup>



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With regard to legislation for savings and credit cooperatives, what is needed is a legislative framework that recognises the unique nature of savings and credit cooperatives and provides specific legislation for them.<sup>82</sup> In some countries, they are regulated by general cooperative laws but these are not appropriate. In Sri Lanka, for instance, the SANASA movement is held back by being regulated by cooperative commissioners at local level who do not know much about the financial sector.<sup>83</sup> In other countries they are regulated by micro-finance laws that are designed more for NGOs and private banks.

<sup>80</sup> Jones, 2008 op cit

<sup>81</sup> Crear (2009) op cit

<sup>82</sup> Crear (2009) op cit

<sup>83</sup> See Birchall, J and Simmons, R (2008) *Cooperatives and Poverty Reduction: final report to the ESRC*, available at [www.esrc.ac.uk](http://www.esrc.ac.uk)

Finally, there are also public international regulations that sometime unintentionally also limit the development and growth of all types of cooperatives including international accounting standards and international financial regulations such as the Basel Accords.

How should governments treat savings and credit cooperatives and cooperative banks during the crisis? First, any future financial rescue packages implemented at global or national levels should be unbiased against cooperative financial institutions relative to the commercial banking sector. Second, cooperative financial institutions should be recognized in any pronouncements emanating from governments and international agencies as secure, locally-owned financial institutions that have presented safe and sound financial alternatives during the current crisis. Lastly, future regulations or legislation that may result from this crisis should clearly recognize that cooperative financial institutions have not been the source of these problems, have been significantly less affected by the economic fallout and should not be punished by inclusion in a series of new rules designed to correct a problem they have not caused.<sup>84</sup>



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<sup>84</sup> WOCCU Asks G-20 Finance Ministers to Recognize Credit Unions Safety, Stability - letter from the CEO, Pete Crear ([www.woccu.org/press/releases?id=1543](http://www.woccu.org/press/releases?id=1543))

### 3.5 How can the ILO assist its constituency to promote cooperatives to address the crisis and recovery?

The ILO has a unique mandate and responsibility within the United Nations systems to promote cooperatives. It has an excellent opportunity to respond to the economic crisis through its Cooperatives programme (EMP/COOP) to deliver effective services in the implementation of ILO R.193. This includes policy advice and technical expertise in such areas as legislation as well as the implementation of technical cooperation programmes to support cooperatives. Through the unique Memorandum of Understanding between the ILO and the International Co-operative Alliance, the ILO has access to the cooperative movement, its expertise, practical knowledge and a large network of already successful cooperative businesses, and there are a considerable range of opportunities to assist partnerships between the cooperative movement and ILO constituencies.



However, strengthening the cooperative element in existing ILO programmes can also lead to innovative approaches to addressing decent work through the organization including, but not limited to, addressing sustainable enterprise, poverty alleviation, social protection, the informal economy, child labour, gender, corporate social responsibility and a range of other issues that are critical to promoting the Decent Work Agenda.

Finally, the ILO and its Cooperatives programme will likely become more important within the UN system as a focal point for cooperative expertise as the international community, and in particular ILO constituents, seek assistance in promoting cooperatives in all sectors and around the world. The World Bank, in its World Development Report 2008 which focused on agriculture, has already noted the effectiveness of the cooperative model of enterprise as one form of producer organization and thus the importance of the promotion of cooperative development in the context of rural development. It notes too that “financial cooperatives and their networks are re-emerging as promising institutions in rural finance in many countries” which supports evidence from the International Monetary Fund on the success of financial cooperatives.

Further confirmation of the trend to seek solutions to global recovery through cooperatives is also already visible in the initiative of the United Nations to declare a UN International Year of Cooperatives in which the ILO’s Cooperatives programme would hold the secretariat of the Year. The decision will be taken at the UN General Assembly at its 64th session this year, while on 4 July 2009, the international community will celebrate UN International Day of Cooperatives which focuses on the theme, “Driving global recovery through cooperatives”.



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# Sustainable Enterprise Programme

What began as a crisis in finance markets has rapidly become a global jobs crisis. Unemployment is rising. The number of working poor is increasing. Businesses are going under. Concern is growing over the balance, fairness and sustainability of the sort of globalization we have had in the run up to the financial crash. The International Labour Organization, representing actors of the real economy, that is governments, working together with representatives of employers and workers organizations, is playing its role within the UN and multilateral system to support its constituents as they seek to weather the crisis, prepare for recovery and shape a new fair globalization. The Decent Work Agenda provides the policy framework to confront the crisis. In this series of brief publications, the ILO's Sustainable Enterprise Programme reflects on impacts of the global economic crisis on enterprises and cooperatives, provides examples of policy and enterprise-level responses, and indicates how constituents can be supported by the ILO.

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