



International Organisation of Industrial, Artisanal and Service Producers' Cooperatives

The impact of the crisis on worker and social cooperatives

Brussels, July 2009

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

CECOP-CICOPA Europe is CICOPA's regional organisation for Europe.

Concerned by the current economic crisis and its serious challenges for employment, sustainability of the enterprises and social cohesion, CICOPA (directly and through its regional organisation CECOP-CICOPA Europe for European concerns) has launched a consultation among its members in order to have a better idea of the effects of the crisis on the affiliated enterprises¹.

Since October 2008, the global financial crisis had led to the bankruptcy of many financial institutions in the USA and in European countries, and is threatening the global financial system. We have decided to take as time reference for the questions of this consultation the last quarter of 2008 up to now. Here are the main conclusions of our analysis.

Economic Situation of the Productivity Sector

→ As it was expected, all of the countries under analysis report a **downturn in production and sale**. This phenomenon started approximately during the last semester of 2008 and is gradually worsening.

In turn, Italian social cooperatives report for 2007 a turnover increase of about 9%. In 2008, the year of the crisis, the economic performance was still good and social cooperatives do not report any significant reduction in production nor turnover compared to previous years. This reflects the typical anti-cyclical economic performance of this sector.

→ Some sectors seem to be the most affected by the crisis. In general, all countries highlight a downturn all through the construction sector, which also affects plumbers, electricians, painters and home service as a whole. Moreover, countries with a presence of a textile industry states difficulties as well. Those countries are: Romania, Slovakia, Bulgaria and Italy.

We can conclude that all countries that in the past had gained or lost from the outsourcing phenomenon are today badly affected by the global crisis. This is the result of the fact that the current crisis does not concern the level of prices of certain

¹ Consultation launched in March 2009. Members in 18 countries have responded to the survey: Bulgaria, Denmark, Estonia, Finland, France, Italy, Poland, Romania, Spain, UK, Slovakia, Brazil, Canada, China, Colombia, Japan, South Korea and USA.

products, but concerns a decrease in the global demand which causes a decrease in production across countries.

According to the specificities of each country under analysis, some difficulties in other sectors have been reported. Italy declares problems in shoe production as well as in the ceramic, furniture and food sectors. Bulgaria suffers from a reduction in wood and furniture production. As for the other countries, Spain reports problems in the construction sector, as well as in the sectors related to the person. In fact, COCETA (Spain) reports that public administrations which generally delegate the provision of those services to cooperatives are today more concerned about the economic dimension.

Finally, France states that all sectors are involved without any distinction. The crisis concerns in particular young cooperatives suffering from the lack of expertise and financial instruments to face the situation.

→ We can observe a similar trend reported by all members that goes in the direction of a **limited job reduction**. Except for Finland and Spain, all other countries report a reduction of personnel. Italy and France indicate the possibility for enterprises to introduce social security cushions like part-time jobs and redundancy funds. UK reports that worker-cooperatives are less likely to reduce jobs as they privilege forms of pay-cuts among their members rather than making workers redundant.

→ However, CECOP members do not indicate **any closing down among their affiliated cooperatives so far**. We can consider this good performance of cooperatives as a result of their **capacity to combine security and flexibility while pursuing their mission of creating sustainable jobs**. In particular cooperatives are characterized by the **capacity to modernize their products, services or production processes while at the same time they show their ability to substantially modify their production line or services which are crucial skills especially under the threat of the current global financial crisis**.

→ Meanwhile, we observe that conventional enterprises restructured by workers in cooperatives are on the increase, and are expected to increase even more in the near future.

Credits Solvency and Liquidity Problems

Informations related to *credit solvency and liquidity problems* can be considered as a ‘thermometer’ to assess the good state of the economic system. In fact, the ability of SMEs to grow depends highly on their potential to invest in restructuring, innovation and qualification. Access to credit is a fundamental tool to ensure that SMEs in general and cooperative SMEs in particular can continue to do business, creating a new wave of job creation and growth.

→ It seems that the current financial crisis, and the higher risk awareness in the credit sector, as well as the ongoing restructuring process in the finance sector, is having a **negative impact on the accessibility for cooperative SMEs to obtain credits**.

Except for France, who indicates difficulties only regarding short term credits, the other countries report that the present situation is affecting all types of loans. Particularly Italy and Spain stress the fact that banks have started to tighten up their access to lending.

Moreover, according to Italy (Fedesolidarità), the reduction of access to credits is dramatically affecting social cooperatives where cash flow is extremely important especially for enterprises with little capital and concerned by late payments from public authorities.

→ Italy, Denmark, UK and Poland report a **positive trend regarding the performance of the cooperative banks**. According to them, cooperative banks have not been massively affected by the crisis thanks to their **decentralized structure**, as well as their **strong reliance on deposits**, make them more immunized against global stock market turbulences than other credit institutions. Particularly UK highlights that cooperative banks are less affected by the economic downturn as they historically do not take such strong risks with their capital and have an ethical policy on investments.

On the other side, French and Spanish cooperative banks have reported difficulties. According to Spain, cooperative banks, as well as traditional banks, have started to tighten up their access to loans, except for “Caja Laboral” which keeps open the specific credit line for the cooperatives of the Mondragon group.

→ The phenomenon of *late payments from public authorities*² is far from being homogeneous among EU countries. Nordic countries are not affected by this problem which seems to concern mainly Mediterranean countries. In line with these considerations, it emerges from our consultation that Italy, Spain and France report big damages related to the late payment phenomenon. In particular, Italy is highly concerned with this problem which massively affects their SMEs. At best, long payment periods substantially increase the cost of doing business, at worst they lead to strings of bankruptcies and lay-offs.

According to Italy (Fedesolidarietà), late payment problems reduce the anti-cyclical inclination of social cooperatives when at the same time they increase the already numerous problems induced by the crisis.

Future Expectations and Potential Measures

→ Except for Denmark - surprisingly positive in considering the future trends - all other countries, which means Finland, Slovakia, Poland, Bulgaria, Romania, Italy, Spain, France and UK, expect a **worsening of the current economic situation**.

According to Slovakia, the probable effects that the crisis will have on their cooperative enterprises in 2009 will be:

- Reduction of the volume of production
- Decrease in employment
- Reduction of orders
- Overall worsening of business environment
- Reduction of size of retail sales
- Restriction of investment and construction-related projects

Italy (Fedesolidarietà) is concerned about the indirectly negative impact that the crisis will probably have on social cooperatives through the decrease in public administration accounts, which will lead to a reduction of social funds.

CECOP members are awarded that probably **the deepest part of the crisis is still to come and governmental interventions in order to mitigate the future effects of the crisis are strongly expected**.

→ Regarding the *potential measures* which could help cooperative enterprises to better face the global crisis, CECOP members express a very **pro-active approach**. Generally they plan to help their affiliated cooperative enterprises according to three main areas of intervention:

- Boost efficiency and competitiveness
- Promote partnerships
- Support the access to governmental and EU programs

As regards the first area which focuses on boosting efficiency and competitiveness, the measures that have been highlighted by Finland, Slovakia, Romania and Italy concern: training activities for both workers and directors, chain production restructuring, marketing support and promotional activities with the purpose to find new orders, clients and in general new business contacts. In this way our members take of the initiative to facilitate contracts and to organise sale events in order to make the cooperative products more visible for final customers.

In order to ensure a better access to credits, Italy, Slovakia and France stress the necessity to promote partnerships, and generally-speaking to cooperate, with both neighbourhood federations and cooperative credit system.

Only Bulgaria stressed the importance to facilitate the access to programs financed by the EU and governmental funds to their members.

Denmark reported its commitment to work politically to secure that the European growth objectives will be well targeted in order to really meet the enterprises' needs.

Beyond the areas listed above, Spain reports its commitment to get closer to public administrations in order to show them the good performances of worker cooperatives. COCETA also highlights its will to promote cooperative model in other new sector, like childcare services.

² By "late payment" we mean exceeding the contractual or statutory period of payment

In a number of cooperatives, members have decided not to distribute 2008 surpluses. In the Mondragon cooperative group, worker-members of cooperatives with difficulties have been re-deployed in other enterprises of the group, a measure that had not been used, at least on a significant scale, over the last two decades.

→ In order to face the crisis more easily, CECOP members are asking their national governments to set up measures such as: **reduction of tax rates in order to boost potential investments; increase in public spending - especially in the construction sector; measures supporting export and finally special development programs for the cooperative sector in order to support the creation of new cooperative societies.**

Governmental measures regarding **credit access and late payment problems** would be welcomed by our members. In fact, they are two fundamental pillars for an efficient SMEs policy.

Romania, Italy and France are asking for a **general relaxation of loan conditions for the domestic sector in** order to boost consumption and for the business sector to boost investments.

Spain suggests the Cooperative Reserve Funds - that cooperatives are obliged to constitute - to be used as guarantee funds to obtain credit and contracts with public authorities.

Italy, Spain, France and Romania strongly request stronger state intervention to solve late payment problems which increases dramatically the costs of doing business.

Moreover, Italy (Confcooperative) proposes some interesting practical measures. They ask the Italian government to establish a fund of 2 billion Euro to **support the network of guarantee funds**, as well as an **immediate availability of welfare support provisions**. Privileged credit lines should be ensured for enterprises providing welfare support provisions. Then, due to the high level of women employed among Confcooperative's affiliated enterprises, the organisation encourages the government to enlarge family services. Regarding business transfer, Confcooperative already proposed the establishment of an institutional task force which would monitor the most excellent business experiences as well as the best Italian clusters in order to protect them from closing down and, when necessary, would promote measures to support the transfer of business to employees as stated in the Marcora law. Confcooperative proposes to modernize the Marcora law and to introduce the possibility to cooperativise not necessary the enterprises as a whole but only spin-offs created by employees.

Concerning social cooperatives, Fedesolidarietà (Italy) stresses the fact that the Italian government should **recognize them as community-based enterprises** which ensure proper access to services to the largest amount of people, at the most affordable price, while maintaining all their entrepreneurial competitiveness. For those reasons, they should be treated differently from other enterprises providing services of general interest.

Situation in the rest of the world³

Consulted members in the USA, Canada, Brazil, China and South Korea report a **downturn in production and sales**. The affected sectors are various as well: the USA report negative effects in the construction sector as well as in the catering industry; Canada (Quebec) in the forestry sector; in Brazil the most affected sectors are those of metal-mechanical industry and recycling; in China the export-oriented sectors. In Japan and Colombia the services sector was hit, and Colombia also reports some negative consequences in the textile and clothing industry sectors.

Similar trend as in Europe: **job losses are almost nonexistent** (only Brazil reports some), but some internal adaptation measures have been put in place, such as reducing hours or cutting wages. Only the USA reported closings among affiliated enterprises (homebuilders sector, which started in 2007 with the housing market crisis, and new closings are anticipated in early 2010).

Like in Europe, members unanimously reported **difficulties in accessing credit from traditional banks**, and in particular, access to **start-up credit** and lines of **cash flow** for currently operating cooperatives. South Korea, the USA and Colombia mention the same problems for cooperatives banks. Differently from Europe, anyone is reporting late payment problems from public authorities. Nevertheless, Colombia complains about reduction of public contracts with worker cooperatives in some regions.

³ Based on answers obtained from members from Brazil, Canada, China, Colombia, Japan, South Korea and USA

Non-European members are generally less sceptical about the future. Even if the majority of them expect more difficulties to come, some countries see the crisis as an opportunity to consolidate their activities (Colombia). Brazil even reports some recovery indicators.

Specific measures are being put in place by members to face the crisis, that mainly concern **access to finance**, such as a worker ownership fund for loans (USA), and increasing the equity capital ratio through improving account balances (Japan). Colombia is promoting **better cooperation between cooperatives** in order to improve their production and benefits. Even if some governments have already set up measures to foster the recovery – such as in South Korea where the government has decided to spend 60% of its annual budget in the first half of the year in order to promote job creation and to encourage economic activities, or in Brazil where the government is trying to increase access to credit with new credit lines and resources geared toward both investment and working capital and towards private consumption – members are conscious that **more efforts need to be done**. They have all asked their governments to put **tax reduction measures** in place, **to facilitate access to credit system and guarantee funds, and make public markets more accessible for cooperatives**. Some specific initiatives in favour of cooperative SMEs are being requested in the USA and Colombia (simplification of administrative procedures). Japan asked for emergency employment measures to prevent unemployment. Colombia suggests financial support for restructuring activities (production diversification etc), as well as measures to promote and facilitate the creation and development of enterprises in newly competitive sectors (information and communication technologies) or in agro-industry in rural areas.

Why are our enterprises more resilient?

The relative resilience of our enterprises to the ongoing crisis can be explained through the very nature of worker and social cooperatives, and in particular the **strength of worker ownership**. They are characterized by a special labour relationship where workers-owners hold sovereignty in entrepreneurial decisions and are fully responsible for the choices they make. We know that increases in productivity and competitiveness, today extremely necessary to face the challenges coming from the financial global crisis, can also derive from the level in which workers, who are not merely interested in a financial participation, can really participate in the decision-making process of the enterprises.

Being member-based, our enterprises **do not delocalize** and generally manage to keep jobs and economic activities locally, thus providing an important component of **labour security** to their workforce. Moreover, worker and social cooperatives have been able to develop fundamental skills, like their capacity to modernize their products, services or production processes and their capacity to substantially modify their production lines or services. This capacity to **combine flexibility and security**, to adapt to change when preserving jobs and their local roots, is probably their main strength. **Mutualised support institutions**, in particular financial instruments, also play a major role in facing the current difficulties.