



# The International Organisation of Industrial, Artisanal and Service Producers' Cooperatives

## Cooperative enterprises in industry and services prove their strong resilience to the crisis

SECOND REPORT - MAY 2010

*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.*

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# Introduction

As a response to its concerns regarding the economic crisis and its serious challenges for employment, enterprise sustainability and social cohesion, in 2009 CICOPA (directly and through its regional organisation, CECOP-CICOPA Europe for European concerns) initiated a consultation process amongst its members in order to gain a better idea of the effects of the crisis on the affiliated enterprises<sup>1</sup>.

One year after the first consultation, CICOPA launched **a new consultation** in order to observe changes and the evolution of the situation, as well as to gauge the reaction of worker and social cooperatives. Most CICOPA members have participated in the 2010 consultation<sup>2</sup>.

## Economic Situation of the enterprises

First of all, the majority of European member states have reported **a decline in production and sales**. However, some exceptions to this general trend have been noticed: over the last few months, a slight and slow recovery in production and sales has been observed for Spanish, Maltese and some Italian cooperatives.

The sectors most affected by the economic crisis are the secondary sectors, such as manufacturing (textile, shoes, clothing, luxury articles, engineering, automotive industry, wood industry, etc) and construction. Contrasting tendencies may be seen in the tertiary sector. According to Italian members, whilst social services remain less affected by the crisis, other enterprise-related services, including real estate, logistics and transport are amongst the most affected. The Italian member, Federsolidarietà, has even reported that **employment levels were maintained in the social services sector** in 2009.

In terms of job losses and the number of enterprises closing down, a significant difference was observed compared to the situation in 2009. Whereas job losses were negligible in March 2009, the majority of members are reporting **job losses** this year. Even those who reported no job losses last year seem to be facing job cuts due to the extended effects of the crisis (Finland and Spain).

Whilst there were no reports of enterprises having to close in the last survey, this year there are **several cases of enterprises being closed down** or being in the process of liquidation, mainly in Central and Eastern European countries (Romania, Bulgaria, Estonia and Slovakia) as well as among French and Italian members. However, it should be noted that most of the reported cases of enterprises closing down would not appear to be directly related to the current economic crisis, as these enterprises were facing problems even before the start of the crisis.

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1 The 2009 report can be read on [www.cecop.coop/Effects-of-the-crisis-on.html](http://www.cecop.coop/Effects-of-the-crisis-on.html)

2 Consultation launched in March 2010. Of the members in 18 countries who took part in the survey in 2009, members in 17 countries (with the exception of UK) have participated once again in 2010: Bulgaria, Denmark, Estonia, Finland, France, Italy, Poland, Romania, Spain, Slovakia, Brazil, Canada, China, Colombia, Japan, South Korea and USA. In addition to these countries, we have also received answers from 4 other countries: Czech Republic, Germany, Malta and Argentina. This means that we have been able to analyze the situation for 27 members in 21 countries.

For extra-European members, general perspectives of the economic situation seem to be rather heterogeneous. Generally speaking, members in Asia and North America consider that the situation has worsened. However in South America, whilst one Brazilian member reports a reduction in sales and prices, two other members report that the overall economic picture for 2010 is good, or at least better than it was in 2009. The most affected sectors are so widely spread across the countries in this region that it is difficult to describe a general trend.

With regard to job losses and the number of enterprises closing down, the general picture is rather mixed. Argentina, Colombia, Japan and the United States report no significant job losses and no closures. On the contrary, in 2010 Canada and Brazil have experienced job losses and a small number of closures. For their part, American member report some closures caused by factors other than the crisis, whilst South Korea reports no closures, although there have been job losses in the most affected sectors, such as recycling.

According to French, Spanish and American members, during an unfavourable economic situation worker cooperatives prefer to **maintain jobs through flexibility**, i.e. they prefer to cut wages rather than jobs. The German member organisation believes that this flexibility is the result of a higher degree of **direct worker participation in the enterprise**.

**Cooperative innovation** seems to be a factor that can both prevent and overcome the negative effects of the crisis. In Spain, for example, cooperatives working in construction and related sectors have shown themselves to be innovative and **able to adapt to the changing situation** by converting themselves into solar-energy cooperatives. In Germany, cooperatives that are able to adopt innovative measures in times of crisis are those who are reporting the best performances.

French Bankruptcy Courts are processing a significant number of **cases that will allow enterprises to become cooperatives**. In Argentina, many independent entrepreneurs are prepared to form cooperatives in order to be in a better position to cope with the crisis.

In conclusion, we can state that even in the context of a worsening economic situation, and despite some job losses and a small number of closures, worker and social cooperatives seem to be **more resilient in weathering the crisis than conventional enterprises active in the same sector and on the same territory**, as a result of their cooperative nature. As a Polish member remarks, these advantages are not limited only to worker cooperatives, since cooperatives in general are displaying similar trends across various sectors.

## Credit Solvency, liquidity and debt problems

All European members, except Denmark, have encountered **worsening conditions for the negotiation of bank loans**, including loans provided by cooperative banks. Outside Europe, the financial conditions currently faced by worker and social cooperatives seem to be similar. Almost all members report difficulties in the negotiation of bank loans.

The situation is similar for cooperative financial support systems, since these systems usually require higher criteria that worker and social cooperatives are not always able to meet (Argentina and Colombia).

In addition, some members report severe **late payment** problems, especially payments due from local authorities, including the health authorities, who are often third party payers for social services (Italy, Spain, Argentina, Canada). However, it would appear that the issue of late payments from the public authorities was a problem even before the present crisis began, even though it has certainly worsened during the crisis.

On the whole, the level of indebtedness of cooperatives would not appear to be at the same level as that of other types of enterprises. Nevertheless, members in some countries (Denmark, Italy France, US, Canada, South Korea) report mounting debts in their affiliated enterprises.

It should be noted that some members have recently developed (Italy, Germany) or are currently developing (Slovakia) **their own financial instruments** and **credit system based on cooperative principles**. The Spanish government has launched measures in order to allow access to credit through the ICO (Official Credit Institute).

In conclusion, cooperative financial resources based on solidarity help cooperatives to be **less dependent** on external financial sources than conventional enterprises. This could explain their greater degree of sustainability in the current economic crisis caused by the financial system.

## Future Expectations and Potential Measures

Most European members expect their economic situation to either **worsen** or **stagnate** in 2010. Compared to 2009, this negative perception has become stronger. In fact, it may even be expected that the recent worsening economic situation in Europe may result in economic difficulties that are more serious than expected by the members.

However, the situation outside of Europe **seems to be better**: in Argentina, Brazil, Japan, South Korea and China, affiliated cooperatives expect the economic situation to improve in 2010. American and Canadian members do not expect their situation to improve, but, at least, nor do they expect it to get any worse.

In response to the economic crisis, cooperative federations are considering the adoption - or have already adopted - various **internal measures to support their affiliated enterprises**. Provision of information, training and consultancy are mentioned as the first contribution being made by umbrella organizations to their members (Bulgaria, Czech Republic, Argentina and France). Efforts designed to strengthen cooperation among cooperatives have been emphasised by Danish, Argentinean, Colombian and Japanese members. Furthermore, financial services for worker and social cooperatives have been created in some countries. In Italy, three main cooperative federations have jointly created a new financial instrument, Cooperfidi, alongside each federation's own various financial instruments. Polish, Argentinean, Canadian, American and Slovakian members have also established, or are establishing, their own financial instruments. Business services for affiliated cooperatives, such as internet-based sales, are currently being considered by the Slovakian member. Measures in favour of the promotion of the worker cooperative model have been launched by Spanish and Japanese members.

In terms of **governmental measures that could help cooperatives to overcome the economic crisis**, members are calling for the removal of fiscal disadvantages faced by cooperatives compared to conventional SMEs (Spain), tax exemption for cooperatives

(Argentina and Canada), support for broadening market and international cooperation (Argentina and Brazil) and the simplification of the process of enterprise creation (Italy and Argentina). Better access to credit system for cooperatives is needed, as well as more possibilities for accessing guarantee systems (France and US). South Korea is asking for the creation of new loan funds designed specifically for enterprises engaged in activities of a social purpose. Colombia has expressed the need for improved interest rates for investment and for the facilitation of access to credit and these calls have been echoed in both Italy and Spain.

In order to resolve late payment problems, the Italian and Spanish members are calling for a legislative reform to accelerate the payment processes and for legal decisions to be taken at the European level (European Court of Justice).

Other members are asking for **stronger governmental intervention in different sectors**: building and construction (Denmark), improvement of infrastructures and promotion of R&D (Italy), better environment for SMEs and cooperatives employing disabled people (Romania), as well as a general anti-crisis programme (Bulgaria).

Some members have already obtained concrete policy measures from their governments as a response to their requests: exemption from tax paid on reinvested profit (Romania), subsidized low interest loans and long-term investment projects for SMEs (Argentina).

At the **European level**, members are calling a range of measures that could help them to cope with the harmful effects of the crisis:

- improvement of procedures allowing access to Structural and Cohesion Funds
- implementation of programmes and incentives for employers to ensure the integration of the unemployed, programmes and incentives to combat illegal work and unfair competition (Romania)
- promotion of sustainable employment and introduction of social clauses in public procurement (Spain)
- simplification of the business environment in the EU (Czech Republic)
- better recognition and support for cooperatives at EU and national level (Estonia, Spain)
- standardisation of national laws on cooperatives and adoption of a more flexible approach to “state aid” granted to cooperatives (Italy)
- protection against dumping (Italy)
- greater attention to be given to late payment problems (Italy)
- higher degree of participation of cooperatives in EU projects (Bulgaria)

## Conclusion

Are worker and social cooperatives still affected by the ongoing economic crisis? If so, to what extent are they still affected? The result of this second consultation raises several points that are relevant to these questions.

- Some worker and social cooperatives are already recovering from the economic crisis in 2010. However, they are still being impacted, both directly and indirectly, by the economic crisis.
- The economic crisis, which is rooted in the financial system, has worsened the financial environment of worker and social cooperatives. All of them face difficulties in negotiating loans with banks. Nevertheless, the direct impact is less severe for cooperatives from our network than for conventional enterprises, since they are able to rely on their own resources rather than being dependent on external financial resources. In some countries, if necessary, they have access to mutualised support institutions, such as non-banking financial cooperative instruments
- The indirect impact poses greater difficulties for worker and social cooperatives. The general economic downturn has discouraged almost all economic activities. The current depression is having a substantial impact on worker cooperatives in sectors that mainly depend on the performance of other enterprises, such as manufacturing, construction and business services. Human services principally financed by the public authorities would appear to be able to maintain their activities without much difficulty, with the exception of the permanently present problems, such as late payment. This indirect impact has led to some job cuts and the closure of a number of enterprises, even though the total amount is lower than the corresponding figures for conventional enterprises active in the same sectors and on the same territories.
- Innovative measures and the flexibility of cooperatives from our network, based on the participation and the sharing of responsibility by the workers in the governance of their cooperative, represent an extraordinary potential for them. Many cooperatives have maintained employment levels by reducing wages rather than cutting jobs or relocating their activities. Furthermore, some cooperatives are attempting to innovate their business, considering the crisis to be nothing more than a change and therefore an opportunity to develop the potential of both their cooperative and its members.