

Harnessing the Cooperative Advantage to Build a Better World

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Sustainable Enterprises: The cooperative way of doing of business

The International Labour Organization (ILO) Decent Work Agenda with its four pillars: the promotion of the fundamentals principles and right at work, the creation of employment and livelihoods, the extension of social protection and the promotion of social dialogue between workers, employers and government employment, best describes the work of the organization. Decent Work promotes the integration of the three components of sustainable development: economic development, social development, and environmental protection. It is a means for achieving equitable, inclusive development and is at the heart of every strategy created to achieve sustainable economic and social progress.

ILO promotes enterprise development in a manner that aligns enterprise growth with sustainable development objectives and the creation of productive employment and Decent Work. Within its enterprise development programme, the ILO promotes the cooperative business model as part of its overall objective to create and maintain sustainable enterprises, offering jobs that not only provide income but also pave the way for broader social and economic advancement. It recognizes the cooperative model of business as being able to successfully promote sustainable livelihoods strengthening individuals, their families and communities.

Introduction

“A cooperative 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.”¹

Cooperatives formed by producers, consumers, workers, businesses and local authorities have demonstrated their enormous potential in creating decent work opportunities, empowering people, providing social protection and alleviating poverty. They have a proven track record of advancing sustainability and social justice.

Cooperatives bring together over one billion people as members and maintain 100 million jobs. They are enterprises that proven their resilience to crisis over time and so they are important economic, social actors as well as environmental actors.

The model of enterprise is principled based. It puts people in

the centre of the enterprise rather than the profit, and seeks to serve the needs for goods and services of its

Cooperative membership

In Brazil, 10 million people are members of cooperatives

In Canada, 18 million members

In China 43 million rural families in agricultural cooperatives

In Costa Rica 37% of the population is member of a cooperative

In France, 23 million people are members

In Indonesia, 80 million people are members of a cooperative

In Kenya, 7 million members

In Malaysia, 27% of the population or 6.7 million people are members of cooperatives

In Uganda 13% of the population or 3.9 million people are members of cooperatives

In Vietnam there are 7.5 million members

¹ (International Cooperative Alliance Statement on the Cooperative Identity / International Labour Organization (ILO), Recommendation 193 concerning the promotion of cooperatives (R.193)

members rather than maximize profit for shareholders. And although cooperatives must be competitive in the market, the decisions taken by cooperatives balance the need for profitability with the needs of their members and the wider interests of the community.

Cooperatives take a variety of forms and are of varying size. They are active in nearly all sectors of the economy. Found in the traditional sectors of agriculture, consumer retail, financial services, housing, and industrial production, cooperatives are also providing services such as health and social care, electricity and water, transport, funeral service, telecommunications, internet services and leisure activities to name only a few. They are multi-million dollar enterprises as well as small-scale enterprises with membership as low as three, to hundreds or thousands per enterprise.

Cooperatives are a different way of doing business. They differ in purpose, control structure and allocation of profit. Their focus is on members, and democratic member-control is this difference that affords them the possibility of providing sustainable livelihoods to diverse groups around the world.

Contribution of Cooperatives to Gross Domestic Product (GDP)

11 %	Switzerland
10 %	Argentina
5.4 %	Vietnam
5 %	Colombia
3 %	New Zealand
1 %	Malaysia

How do cooperatives contribute to sustainable livelihoods?

Cooperatives contribute to sustainable livelihoods in a number of ways. Some are specific to the principle-based model of enterprise and their member focus and control structure, while others relate to their functions or scope of operations. These include the role of cooperatives in creating and maintaining jobs, in making available essential services including social protection, maintaining stability, protecting rights, and providing voice and representation to their members and communities.

- **Cooperatives create employment and livelihoods**

Cooperatives secure productive employment and income providing wages and salaries for over 100 million people. In some countries the number of jobs is significant. For example in Bolivia, 9.2 per cent of the active population is employed directly or indirectly by cooperatives (534,000 jobs) with over 77 per cent of jobs in the mining sector (the primary economic sector in the country), while in Kenya 63 per cent of Kenyans derive their livelihoods directly or indirectly from cooperatives. In Europe, cooperatives have created 5.4 million jobs with cooperatives. In France alone they are responsible for employing one million people representing 3.5 per cent of the active population. In the United States, cooperatives have created two million jobs.

While cooperatives are significant providers of salaried employment for both women and men, they are also facilitators of self-employment. Cooperatives offer people from all social economic status the opportunity to create their own jobs through the worker cooperative model where members are also employees. Worker cooperatives exist of skilled and unskilled workers, artisans, women, youth, persons with disabilities, artists, and many others and operate in all sectors of activity.

Young people are turning to cooperatives to gain self-employment. Cooperatives allow young people to pool both financial and knowledge resources in an enterprise that can respond to nearly every need and productive activity. The business model is particularly attractive in countries where young people entering the job market seek work that responds to both their economic needs, but also to their desire to work in businesses that are responsive to people's needs, embrace democratic practices in workplace and are

responsible enterprises. Low capital requirements, limited liability, the flexibility of self-employment and an enabling legislative and policy environment that support enterprises that bring both economic and social aims together are factors that are favourable to young entrepreneurs forming cooperatives. In Spain, where youth unemployment is significant, worker cooperatives have seen an increase of 7.5 per cent with 12,890 newly created jobs during the course of the last quarter, the majority by and for young people². In some countries, governments are promoting cooperatives for unemployed youth as in the case in Panama and Morocco where entrepreneurship programmes provide specific support for cooperative start-ups.

A successful youth cooperative

Mountain Equipment Cooperative (MEC) was started by six students in 1971 in Canada with C\$ 65 operating capital. They wanted to start an enterprise that would provide outdoor equipment with a low mark-up on the gear offered and operated with democratic principles. Forty years later, three million people in Canada and around the world share the original philosophy and are members of the cooperative which has annual sales of C\$261 million. Widely recognized for its commitment to sustainability, MEC is Canada's leading outdoor retailer.

Moreover, studies have pointed out that worker and social cooperatives in particular tend to provide job security through long-term employment contracts. This is particularly the case in European worker cooperatives. As worker cooperatives are set up to provide employment to worker-members, employment stability is one of the member benefits that is established at the outset as the aim of the cooperative. Yet no enterprise can guarantee job security and like other enterprises, cooperatives can and do fail. However, the cooperative governance and economic model enables worker-members to take rapid joint decisions in times of crisis, decision that directly impact their conditions of work. And so, to save jobs, some workers cooperatives particularly in Europe have chosen short term measures including non-distribution of surplus (a measure that can be agreed by members in any type of cooperative), reducing costs, hours of work and wages while looking to product innovation, technological improvement, restructuring and innovation to seek to improve efficiency. The Mondragon Group of Spain for example has a sophisticated system of temporary or permanent redeployment from one cooperative of the group to another while maintaining social protection measures intact. Workers benefited from this scheme in 2008 and 2009 when laid off workers were hired in other cooperatives. In 2010 there was recovery and these workers were rehired to fill their previous positions. The Group has put a number of additional short and long terms measures in place to reduce job loss including an unemployment fund, training opportunities and technological modernization and innovation.

The ability of worker cooperatives to save or maintain jobs is particularly important in economic crisis when small and medium enterprises (SME) fail leaving their employees jobless. Enterprise reconversion into worker cooperatives can be an option as a means to save the enterprise, jobs and maintain local economies. The experience of Argentina with its multiple crises has seen the growth of "empresas recuperadas", a phenomenon with over a decade of experience. A recent survey shows that 210 enterprises have been converted into cooperatives employing over 9,400 workers.³ Similar initiatives have been taken in other countries in Latin America. Most recently the United Steel Worker Union in the United States is examining the possibility of SME conversions into worker cooperatives as a means of reviving local economies and maintaining and creating new jobs.

² European Confederation of Cooperatives and worker-owned enterprises active in industry and services (CECOP)

³ *Las Empresas Recuperadas en la Argentina 2010*. Available at:

http://www.recuperadasdoc.com.ar/Informes%20relevamientos/informe_ultima_correccion.pdf

The entrepreneur or shared service cooperative is still another option to improving productivity or effectiveness and maintaining jobs. This form of cooperative is formed by businesses including individual entrepreneurs from the formal and informal sectors or public bodies. They can provide a range of services, accounting services, joint purchasing and/or marketing, research and development activities, or integrate a part of members' production processes. These cooperatives bring together micro-, small- and medium sized enterprises as well as larger scale enterprises.

Entrepreneurs' cooperatives formed by informal economy workers (entrepreneurs) are found in all parts of the world. One example is from Rwanda, the Association de l'Esperance des Taxis Motor au Rwanda (Assetamorwa), a cooperative of motorcycle taxi owners in Kigali. The cooperative was formed to operate a garage and jointly purchase spare parts. However through the cooperatives, motorcycle owners are also able to negotiate and work with authorities such as the traffic police which they would have not been able to do individually. In Colombia independent informal waste pickers, the majority of which are women, have formed cooperatives and associations of cooperatives and recover and sell over 300,000 tons of recyclables each year, mostly paper, glass, scrap metals, plastics and organics. Members report a higher standard of living, as well as improvements in self-esteem and self-reliance compared to when they worked independently and on their own.

Formal businesses have also formed cooperatives to improve their effectiveness on the market. The owners of the 4000 independently owned and operated hotels of the Best Western hotel chain formed a cooperative to support shared services. The cooperative runs a central reservation facility, advertising, hotel and hotel room design, training and toolkits among others. Recycling is also proving to be an area of new cooperative initiatives. Interessenorganisation Batterienentsorgung (INOBAT) in Switzerland was formed following a law in which producers/suppliers were required to collect and recycle used batteries. It brings together some 140 member companies from the production, import and trading sectors and organizes the collection of used batteries, recycling, consumer education/promotional campaigns, and research among other activities. It has created new "green jobs", reduces pollution (it collects over 70 per cent of used batteries in Switzerland) and directly contributes to job stability in the transport and recycling industries which with it contracts.⁴

Also noteworthy, is that cooperative job creation and maintenance has a larger impact on communities, one that is potentially different from other forms of enterprise. Cooperatives are in their majority locally rooted. They are formed by persons from the same community in a specific geographic location and as such, cooperative enterprises stay in their community longer, not delocalizing to lower-wage areas in times of stress, but rather try to find solutions to maintain jobs and improve productivity. The jobs and resources they generate stay in the community, and thus cooperatives have an impact on livelihoods beyond simply the direct members and employees of cooperatives. Moreover, cooperative activity and the stability of this activity have multiplier effects including supporting other local business, helping them to grow and in turn provide local jobs.

- **Cooperatives are a source of stability and resilience**

The cooperative form of enterprise favours a long-term vision of servicing the needs of members which contributes to their stability and resilience. As cooperatives are not seeking short-term economic gains, they focus on improving service to members and building long-term value and sustainability. This success has helped prevent many families and communities from sliding into poverty.

⁴ See <http://www.inobat.ch>

The fact that cooperative members reinvest a portion of surpluses into the cooperatives to build up reserves, at least part of which is indivisible, and that member shares are not easily tradable or transferable, means that there is also a limited incentive to demutualize in order access cooperative capital. This contributes the stability of the cooperative model.

The result of the long term membership focus has been resilience to economic and financial crisis over time as well as their higher survival rates in the start-up phase. This is confirmed by a number of studies:

- 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 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.”⁵
- In Alberta, Canada, a similar study found that the three-year survival rate for cooperatives was 81.5 per cent compared to 48 per cent for conventional firms.⁶
- An ILO study on worker cooperatives in 2005 reported that that the survival rate of worker cooperatives and employee-owned firms in market economies appeared to equal or surpass that of conventional firms and that they also matched or exceeded the productivity of those conventional firms.⁷
- A 2009 ILO report on cooperative resilience found that despite the economic and financial crisis, financial cooperatives remain financially sound; consumer cooperatives were reporting increased turnover; worker cooperatives were seeing growth.
- A 2011 Rabobank study reported that Bloomberg data (WDCI) reveals that European cooperative banks accounted for 7 per cent of all the European banking industry’s write-downs and losses in the period Q3 2007 - Q1 2011. The cooperative banks’ weight in the European banking sector (serving 160 million customers) and economy is, however, much greater with an average market share of 20 per cent. It concluded that “data shows that they performed in relatively stable manner compared to non-cooperative banks”.⁸
- A 2012 study by the Filene Institute in the United States found that while US banks tend to contract commercial lending during economic stress, credit unions growth rates remained positive.⁹ Credit unions’ stable commercial lending history shows they may be helpful in times of economic stress. An earlier study on cooperative banks in Europe¹⁰ also confirmed that during the recent financial and economic crisis, cooperative banks were sometimes the only source of credit for SMEs.

⁵ Study conducted by the Ministry of Industry and Commerce, Government of Québec. 2009.

⁶ Richard Stringham, Celia Lee. Co-op Survival Rates in Alberta. 2001. Available at: <http://auspace.athabascau.ca/bitstream/2149/3132/1/BALTA%20A11%20Report%20-%20Alberta%20Co-op%20Survival.pdf>

⁷ John Logue, Jacquelyn Yates. *Productivity in cooperatives and worker-owned enterprises: ownership and participation make a difference*, ILO, Geneva. 2005.

⁸ Rabobank Economic Research Department. *Cooperative banks in the spotlights*. November 2011. Available at: http://www.globalcube.net/clients/eacb/content/medias/publications/external_studies/Special_Report_Rabobank_2011_12_CB_spotlights.pdf

⁹ David Smith. *Commercial Lending During the Crisis: Credit Unions vs. banks*. Filene Research Institute. 2012

¹⁰ European Association of Cooperative Banks (EACB). *European Co-operative Banks in the Financial and Economic Turmoil*. 2010

- **Cooperatives provide essential services including the extension of social protection**

Cooperatives further contribute to sustainable livelihoods by providing essential goods and services which others do not due to low return on investment or do at better prices and quality.

In some cases, cooperatives have been formed as a reaction to market failure. The provision of electricity, water, sanitation, health and social care, transport, and even financial services to rural areas are among these. These are often key services that contribute to a wide range of development factors including improving food security, growing other enterprises and thus improving livelihoods.

Rural electrification is one such area where cooperatives have been catalysts for development in a number of countries. In Brazil 127 rural electricity cooperatives with over one million members serve over three million customers; in Costa Rica over 20 per cent of rural households were served by rural electric cooperatives in 1995; in the Philippines approximately half of households, the majority in rural areas, rely on electric cooperatives for power¹¹; and in the United States electricity cooperatives serve 42 million people (12 per cent of the population) in 47 states including 18 million businesses, homes, schools, churches, farms, irrigation systems, and other establishments. In other countries like Denmark, and in Germany where energy cooperatives are the fastest growing cooperative sector, cooperatives offer members and their communities access to more affordable energy, often renewable, that was locally produced and controlled.

With regard to financial access, the Consultative Group to Assist the Poor (CGAP) of the World Bank noted that financial cooperatives serve 870 million members around the world. They constitute the second largest banking network with 23 per cent of branches worldwide. On average, only 26 per cent of all bank branches are in rural areas, compared with 45 per cent for cooperatives, providing better access to financial institutions than its competitors. The data also shows that the number of cooperative branches exceeds the number of bank branches in Austria, Burundi, Germany, Hungary, Korea, and Spain. In Burundi, Chile, Spain, and France, cooperatives or specialized state financial institutions also hold more deposit accounts than do commercial banks.¹² In addition, savings and credit cooperatives have stepped in to provide access to social protection schemes including health and insurance, often being the sole provider of micro-insurance in rural areas.

Cooperatives too help so called “vulnerable groups” including persons with disabilities find self-employment or receive specific services to address their needs. Cooperatives are starting to fill the vacuum for adequate transport for persons with disabilities providing them with services that can help them be economically and socially active. Examples of these transport cooperatives include the Titi Floris cooperative in rural France, and Riders Club Cooperative in suburban Pennsylvania in the United States which provide transport to children, the elderly and the disabled; and Especial Coop Taxi in Rio de Janeiro, Brazil specializes in providing special vehicles for the physically disabled. The Italian social cooperatives are another example of how the cooperative model can generate sustainable livelihoods for the disadvantaged persons. It is an innovative model which delivers social welfare services including care, vocational training and employment through cooperatives. Since 1991, approximately 45,000 disadvantaged workers have found employment through social cooperatives including 7 per cent of the total number of disabled people looking for a job. Other cooperatives for and of the disabled are providing care services and work placement services among others.

¹¹ World Bank. “Assessing the Corporate Governance Electric Cooperatives in the Philippines”. Available at <http://go.worldbank.org/NHLPLDSR10>

¹² CGAP. *Financial Access 2010: The State of Financial Inclusion through the Crisis*. 2010. Available at: http://www.cgap.org/gm/document-1.9.46570/FA_2010_Financial_Access_2010_Rev.pdf

- **Cooperatives promote environmental sustainability: Concern for community**

Cooperatives are guided by the Cooperative Principles. The seventh principle, “concern for community” was added in 1995. It states, “Cooperatives work for the sustainable development of their communities through policies approved by their members”. Implicit in this principle is the concern for the environment. Discussions are also currently being held of possibly adding an additional cooperative principle specifically to address environment issues.

Environmental sustainability is a growing preoccupation of many enterprises, including cooperatives. As a sector, cooperatives have the ability reach millions of people, providing education and promoting sustainable development. Their local rooting, member base, people focus, and long-term vision tends to more receptive to environmental concerns and balancing these with the needs of economically competitive enterprises.

The global cooperative movement has made political commitments to the environment since at least the 1950s and they are reinforced today. More importantly these have been accompanied by instances of industry leadership. In the area of renewable energy, in 2008 US energy cooperatives received more than 11 per cent of their power from renewable sources, as compared with 9 per cent for the nation’s entire electric utility sector while in the same year Mountain Equipment Cooperative was named best sustainable business in Canada for its environmentally sustainable approach to business. Cooperatives in various sectors and in many countries are acting on the commitments, reviewing their activities in view of being carbon neutral, complying or bettering standards on sustainable fisheries and forestry, and participating and setting up their own carbon offsetting programmes as was done in Brazil in 2008. Financial cooperatives too are supporting and incentivizing their members to become more energy efficient with specific loan products. Examples are many, from Crédit Mutuel of France with Crédenergie¹³ which helps members finance renewable energy systems and energy conservation measures to the tea growers’ savings and credit cooperatives in Kenya (Kiegoi and Michimikuru) which has helped members purchase solar panels.

- **Rights and the cooperative values and principles**

The respect of fundamental principles and rights at work are key to achieving sustainable livelihoods. Cooperatives as people-centred organizations, cooperatives not only respect, but actively promote these rights. Cooperative movements are strongest in those countries that show the greatest respect for Human Rights and freedom of association.

Similarly cooperatives can also play an important role in promoting the application of key international labour standards aim at promoting opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and dignity. In West Africa cooperatives are engaged in the fight against child labour in cocoa plantation (Convention 182) while cooperatives in Europe work with their suppliers to eradicate child labour from their production; for many years the ILO implemented the INDISCO programme which provided support to cooperatives and similar organizations formed by indigenous minorities (Convention 169). In Southern Africa in particular cooperatives are playing an important role in providing home-based care to AIDS sufferers, or creating alternative livelihoods for people living with HIV (Recommendation 200). In countries around the world cooperatives for and of persons with disabilities are providing employment opportunities (Convention No. 159).

Another area where cooperatives are active is in addressing violence against women. Housing cooperatives in North America and Europe have policies that provide counselling to families where violence has been

¹³ See <https://www.creditmutuel.fr/cmne/fr/banques/solutions-produits/credit/credenergie/avantages.html>

reported; they have adopted strict policies with regard to the non-acceptance of violence; dairy cooperatives in Asia have instituted education programmes for women and men and encouraged the formation of support groups for women victims of violence and many other cooperatives have run campaigns to create awareness.¹⁴

- **Voice and representation**

Cooperatives function in part as civil society organizations, representing both individual and collective interests. They can serve an important governance role in that they are often articulate community voice. Being democratically managed and rooted in local communities, cooperatives are actively involved in civil society. To the extent that cooperatives are able to carry the voice of their members to the formal governance realm, they play a potentially important role in influencing good governance, popular participation in decision-making, and the rule of the law.

An example of how cooperatives provide a means for representation is their role in social dialogue on labour relations. Through social dialogue, cooperatives promote better living and working conditions and greater social justice. Cooperatives participate in employers' or workers' organizations in accordance with their culture, traditions and needs, but can also be recognized as formal social partners in their own right as is the case for example in 25 out of the 27 European Union countries¹⁵ and in Niger, South Africa and Vietnam¹⁶. They are thus able to address collective agreements including salary scales, working hours and conditions of work and facilitate the resolution of industrial conflicts.

The capacity of cooperatives to organize is particularly important for informal and other workers as a means to engage in social dialogue especially where there are major constraints for these workers to join existing employers' organizations or trade unions or establish their own organizations. In these cases, the most effective membership-based organizational structure may be that of a cooperative.¹⁷ For example in rural areas where the majority of cooperatives are found, workers account for nearly half of the world's workforce¹⁸ and unionization barely reaches 10 per cent¹⁹. For informal economy actors, cooperatives not only provide opportunities for increased incomes, they give voice and empower informal workers.

Conclusion

Cooperatives are and can generate and maintain sustainable livelihoods to a wide range people around the world. The qualities derived by the fact that its members are owners and users of its good and services, gives the cooperative model of enterprise an important potential in generating and maintaining sustainable livelihoods. However, as the declaration of the 2012 International Year of Cooperatives (IYC) has shown, there continues to be a need to:

- raise awareness on the model of enterprise and its potential in addressing the needs of people worldwide;
- promote and strengthen the cooperatives and the institutions that provide them support and capacity building and

¹⁴ International Cooperative Alliance. Message for International Women's Day. 2007.

¹⁵ Cooperatives Europe. The Role of Cooperative in the Social Dialogue in Europe. 2007.

¹⁶ ILO-ICA-Cooperative College. *Promoting Cooperatives: A guide to ILO R 193*. 2004

¹⁷ ILO Report to the International Labour Conference 2002. *Decent work and the informal economy*

¹⁸ ILO Report to the International Labour Conference 2008. *Promotion of rural employment for poverty reduction*

¹⁹ ILO Rural Development Policy Brief. "Empowering rural workers, employers and communities through International Labour Standards". 2010.

- ensure appropriate legal and regulatory environment that takes account of the cooperative specificities.

Two international instruments provide guidance: the United Nations Guidelines aimed at creating a supportive environment for the development of cooperatives (2001) which address UN Member States and cooperatives and the ILO Recommendation 193 concerning the Promotion of Cooperatives (2002) which addresses government, workers' and employers' organizations as well as cooperatives. ILO R.193 has already provided been used in over 75 countries in which cooperative policies and laws were reviewed or revised. Still, more work is needed.

IYC national plans have included a number of initiatives to address the challenges of cooperatives, but one year will not be sufficient and specific follow-up will be needed.

ILO with its Cooperative Branch will continue to promote cooperatives as it has done for the last 92 years, providing Member States with assistance in cooperative policy and legislation, training, business development, evidence-based research publications and networking.

Cooperative can build a better world. They can and do generate sustainable livelihoods. We simply need to work together to provide the conditions to enable them to enhance their capacity to do so.

*Maria Elena Chavez Hertig, Coordinator, International Year of Cooperatives /Senior Technical Specialist
Cooperative Branch, International Labour Office (ILO), Geneva, Switzerland
Email: chavez@ilo.org --Website: www.ilo.org/coop*