

Report from the Expert Group on ‘Co-operatives in a world in crisis’ – towards the UN Secretary-General’s report to the UN General Assembly

29.4.09

The contribution of co-operatives to mitigating the global crisis and ensuring longer term economic stability: some policy recommendations.

Introduction

There are several business ownership models in the world, not just investor-ownership but public ownership, family businesses, non-profits and others, including *member-owned co-operatives*. The current financial crisis demonstrates that there is a need for diversity. The co-operative model is not just one model among others; it has a unique contribution to make at all times, but particularly at a time of global economic crisis. The co-operative business has the potential to strengthen social cohesion and stability in society (particularly at the local level) and to point the way towards a new economic order. It should be recognised as a credible and viable business model in the work that has to be done. Governments – both as law makers and decision makers - should recognise that co-operatives are efficient, effective organisations within the market economy. They are democratically governed and collectively owned by the members who use the business rather than just contribute capital to it. They create wealth and then distribute it fairly in proportion to the use made of the business by the individual member. They provide a model driven not only by economic but by human objectives, by a logic of service, responding to the needs of members. They are continually evolving to meet new needs and challenges. They can remain small and locally governed while federating in jointly-owned businesses that provide all the advantages of large scale. Yet they are not just restricted to small scale; the top 300 co-ops make a contribution to the global economy that is about the same size as that of Canada; big is also beautiful.

Co-operatives have the potential to bring stability to the economic system, contributing a unique approach to risk management that will benefit the wider economic order. They create networks with a global reach, applying local solutions to global problems. They provide a bridging institution between the rich and poor, and they have proved themselves to be particularly effective in empowering women. Governments should see cooperatives as responsible and accountable partners in their efforts to promote socio economic measures aiming at developing a more equitable, peaceful and inclusive society. In this report we want to concentrate on the contribution of co-operatives to financial stability and inclusion, to mitigating the effects of recession, and to food security and rural development. Governments have already agreed to recognise and promote the co-operative sector, through agreements such as the UN Guidelines on Co-operatives and the ILO Recommendation 193.ⁱ They have agreed to give general support to the model. Here we suggest some specific ways they can enable co-operatives to make an even more effective contribution.

Recommendations : towards a level playing field

FINANCIAL CRISIS

Co-operative banks and credit unions operate with a different logic than investor-owned banks. Their main aim is not just to maximise profit but rather to meet the financial needs of their member owners. They operate mainly in the retail sector, are generally smaller than large commercial banks and thus have a limited need to raise capital in wholesale markets. As a result, they have proved themselves to be generally more risk averse than investor-owned banks, and better able to withstand the current financial crisis. In the current crisis, most credit unions and co-operative banks have not experienced the same major problems as investor-owned banks. Where there have been financial losses, these have generally not been due to a failure in the co-operative model but rather in the sector's relationship to the rest of the banking system as a whole. These losses have most often occurred at the apex level as aggregators of funds invested in the global financial markets whereas primary financial co-operatives have been able to withstand the effects of the losses themselves. Only a handful around the world have needed to ask for government assistance (though in some cases they have had no choice but to take state aid aimed at all banks). On the contrary, in many markets the co-operative bank and credit union sectors have actually experienced a dramatic influx of deposit funds from member owners seeking a safer place to put their savings, and they have been able to continue to lend when other investor-owned banks have not.

Because of a lack of understanding of the sector by government officials, members of financial co-operatives tend to believe that they do not enjoy a level playing field with investor-owned banks. They are concerned that the financial aid given to investor-owned banks should not distort the market, making for an unfair level of competition. Co-operatives are now demonstrating their advantages - stability, soundness and commitment to community - as never before, and thus feel that they should be supported by governments. Cooperatives request that governments:

1. recognise, through a comprehensive legislative framework, the strength and originality of the co-operative business model as an efficient player in a diverse financial market;
2. provide for mechanisms to ensure a level playing field in which the assistance given to investor-owned banks does not distort the financial market, disadvantaging co-operatives that do not need help;
3. establish sound regulatory regimes in which the responsible regulatory body understands the 'co-operative difference' and adapts regulations and regulatory practices so as not to disadvantage co-operatives. This applies also to accounting standards and taxation regimes, and to rules limiting access to capital; and

4. recognise, through public policy, the unique contribution of savings and credit co-operatives to the goal of financial deepening and inclusion of those who do not have access to financial services. Governments should respect their autonomy, and provide an enabling environment in which funding is made available to enable the sector to grow at its own pace.

THE WIDER ECONOMIC CRISIS

In the past, co-operatives have proved themselves to be capable of withstanding recessions and even benefiting from them; they are seen by customers as being more trustworthy and risk-averse than other types of business. They have contributed to employment protection and creation, and enabled their members to withstand shocks and avoid falling into poverty. In particular, by empowering women they have contributed to achieving the Millennium Development Goals, including gender equality. In the current recession, that seems likely to last beyond the immediate banking crisis, the co-operative sector believes governments should:

1. give preference to co-operatives when making decisions about funding programmes designed to mitigate the effects of the recession;
2. assist the co-operative sector in ensuring that the co-operative form of business is better understood by ensuring that co-operative business education is included on the education curriculum at all levels, from primary school through to business school;
3. support, through state-funded research councils, research and development into all aspects of co-operative business;
4. provide a legislative environment that allows co-operatives to extend their business into micro-insurance products that provide their members with a minimum of social protection; and
5. consider the co-operative sector's values, principles and models in its restructuring of the current economic system.

FOOD SECURITY

Agricultural co-operatives are among the world's biggest agri-food businesses, account for the marketing and processing of a large proportion of farm produce, and are major exporters. They are the only way in which farmers can gain some control over the value chain, but like the rural economy in general their potential has been seriously overlooked. Food security demands a healthy farm economy, and governments and international development agencies should:

1. develop food security policies that recognise the indispensable role of farmer-controlled businesses to the rural economy
2. help increase the capacity of farmers to build strong organisations at primary level that network together and create the kinds of regional and national marketing,

- financing and processing businesses that have made farmer co-ops in the developed world so strong.
3. promote the position and status of women in farmer co-operatives, enabling them where necessary to form women's co-ops to improve their incomes and increase their capabilities.
 4. provide an enabling business environment and infrastructure that enable farmers through co-operatives to gain fair access to land, markets, and relevant knowledge (and to have their traditional knowledge protected)
 5. develop policies that recognised the contribution of farmer co-operatives to protection of the environment, sustainable development and adapting to climate change

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ⁱ United Nations (2001) *Guidelines aimed at creating a supportive environment for the development of co-operatives*, and International Labour Organisation (2002) *Recommendation concerning the promotion of co-operatives*, 193