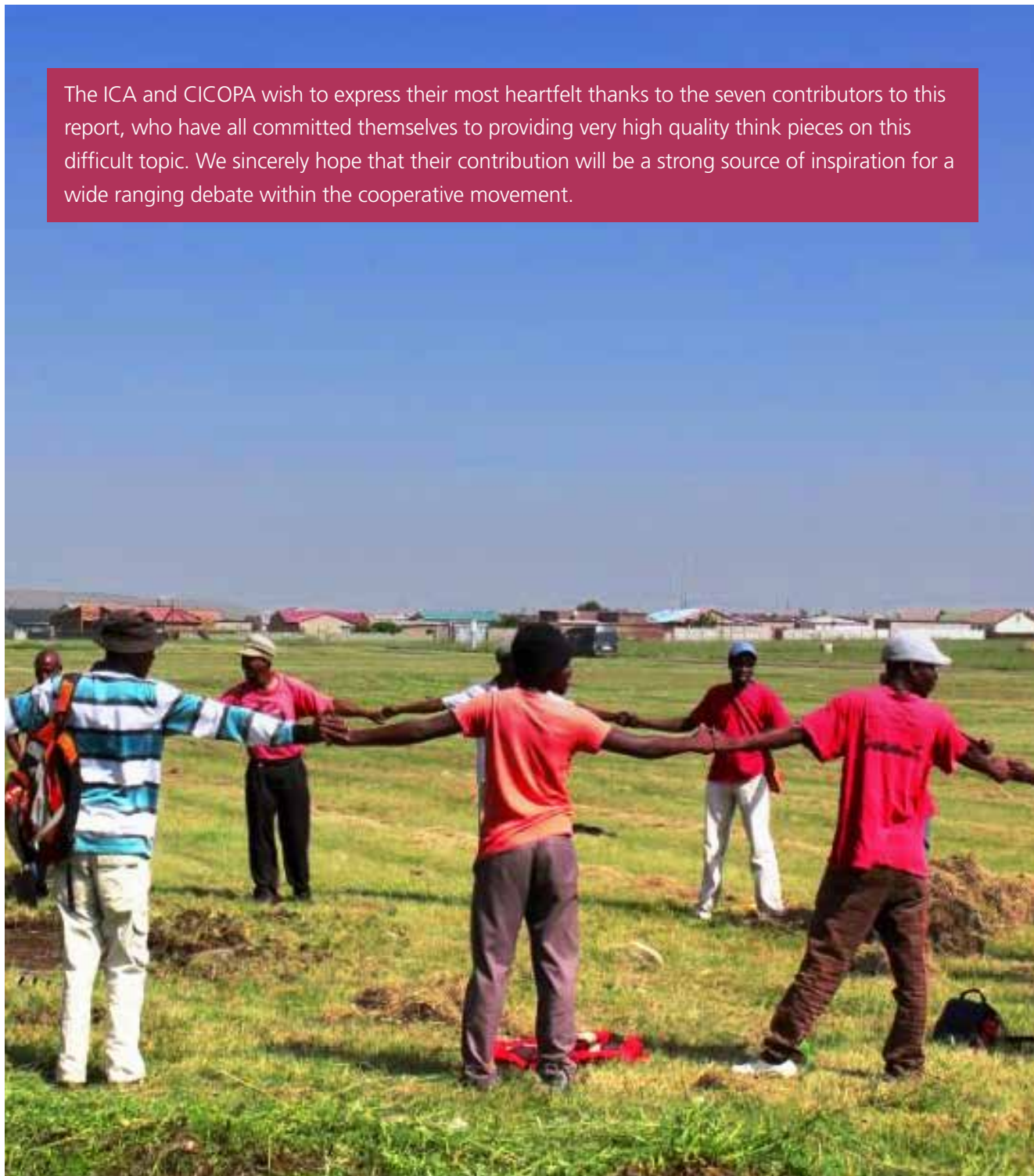




# ACKNOWLEDGEMENTS

The ICA and CICOPA wish to express their most heartfelt thanks to the seven contributors to this report, who have all committed themselves to providing very high quality think pieces on this difficult topic. We sincerely hope that their contribution will be a strong source of inspiration for a wide ranging debate within the cooperative movement.



Layout by Juan Burgos  
Translation of Patrizio Bianchi's think piece by Tony Costante

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(China) is Director of the Rural Development Institute, Chinese Academy of Social Sciences. Zhang Xiaoshan has dedicated his career to rural development, and has been monitoring closely the re-emergence of cooperatives in China under the period beginning in the early 1980s. He evaluated an experimental development project on cooperatives in rural areas of Gansu province as early as 1995. More recently, the Rural Development Institute has been doing research on the impact of the 2006 rural cooperative law of China.

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# INTRODUCTION



# INTRODUCTION

BRUNO ROELANTS

When the UN-proclaimed International Year of Cooperatives (IYC) started in January 2012, around three years and three months after the fall of Lehman Brothers (conventionally considered to signal the starting point of the world wide crisis), it was already clear that this crisis, apart from being global, would also be a long and protracted one, unlike earlier post-second world war crises. The numerous IYC initiatives (conferences, summits, publications, documentary films etc.) could not but face this historical turning point and try to decode it, examining how cooperatives were reacting to it and whether they were contributing to solving the deep-seated reasons that caused it in the first place.

The IYC could create the momentum but was far too short a lapse of time to delve into such analytical endeavour. The international cooperative movement, using its usual and well-tested system of broad consultation and general assembly decision-making, agreed to use the dynamics generated by the IYC to launch a *Cooperative Decade*<sup>1</sup>, starting immediately after the IYC. The ICA *Blueprint for a Co-operative Decade* set the aim that, by 2020, the cooperative form of business should become "the fastest growing form of enterprise". However, as many comments from within the international cooperative movement have pointed out, this objective requires that the terms "growing" and "growth" be properly defined. The common use of these terms by policy-makers has added ambiguity to them as well.

So the idea of the present document came to mind. The ICA entrusted this work to one of its sectoral bodies, CICOPA, the global organisation for cooperatives active in industry and services.

The important feedback which CICOPA has obtained since 2008 on the strong resilience to the crisis of about 80 000 cooperative enterprises that belong to its worldwide network (through annual surveys, fieldwork, specific news and reports)<sup>2</sup> provides

a sound basis to start reflecting on the concept of growth applied to cooperatives, as well as related concepts such as efficiency, development, sustainability, socio-economic and environmental impact, and the creation and distribution of general wealth.

Nevertheless, CICOPA does not pretend, on its own, to have the entire analytical toolbox to define growth, cooperative growth, or the impact of cooperative growth upon overall economic growth, nor how these concepts should be inter-related, appraised and measured.

We thus approached a series of scholars with the aim that they would contribute with individual "think pieces" to this analysis, thanks to their academic background and their knowledge of the cooperative movement, and with the request that they would suggest initial paths for further debate and study. We identified and selected seven persons, coming from different parts of the world (Africa, Asia, South America, North America and Europe) and trained to analyse the question from different angles (labour, political economy, sociology, rural development, industrial districts, banking, the environment). In addition, all seven authors have a broad international experience. Pierre Laliberté has been working with both English-speaking and French-speaking communities of Canada and is presently working for the ILO, where he is exposed daily to the global reality of labour issues and cooperatives. Claudia Sanchez Bajo, with a research background on the political economy of business actors, began her career in Argentina, and has since been teaching and researching in Europe and in China and, more recently, in North America. Zhang Xiaoshan has been exposed to the large and contrasting rural landscape of the Chinese sub-continent, and has been regularly taking part in international rural economy congresses

1- [http://ica.coop/sites/default/files/media\\_items/ICA%20Blueprint%20-%20Final%20-%20Feb%2013%20EN.pdf](http://ica.coop/sites/default/files/media_items/ICA%20Blueprint%20-%20Final%20-%20Feb%2013%20EN.pdf)

2- CICOPA *How Have Cooperatives Active in Industry and Services Performed at the Global Level*; Brussels: CICOPA, December 2012, available on [http://www.cicopa.coop/IMG/pdf/raport\\_cicopa\\_2012\\_en\\_v06.pdf](http://www.cicopa.coop/IMG/pdf/raport_cicopa_2012_en_v06.pdf); CECOP CICOPA-Europe *The Resilience of the Cooperative Model*; Brussels: CECOP Publications, June 2012, available on [http://www.cecop.coop/IMG/pdf/report\\_cecop\\_2012\\_en\\_web.pdf](http://www.cecop.coop/IMG/pdf/report_cecop_2012_en_web.pdf); Roelants B. et al. *Cooperatives, Territories and Jobs*; Brussels, CECOP Publications, 2011; Zevi A. et al. *Beyond the Crisis: Cooperatives, work, Finance*; Brussels, CECOP Publications, 2011.

over the last twenty years. Hans Groeneveld from the Netherlands has been deeply involved in European research on cooperative banking groups. Patrizio Bianchi from Italy has been working on many European research projects on industrial policy and is a key industrial adviser to the European Commission. Vishwas Satgar from South Africa has been a visiting scholar in the USA and has done extensive field work and research on the African continent, India and South America. Anup Dash from India worked as technical expert for the government of the Maldives and has been involved in teaching projects with Germany and the UK, among others. Further details on each of the seven authors can be found in the short biographical notes in the above section "*Contributors to this report*".

**Part I** of the report, called "*From crisis to growth - updating frameworks*" comprises two introductory pieces which set the stage of the ongoing discussion on the global challenges and opportunities facing the cooperative movement.

Pierre Laliberté depicts a broad picture of the global crisis and the failure thus far to step beyond the dying paradigm which sustains it, discussing the issue of shareholder value *versus* stakeholder value. As a labour economist coming from the trade union movement, he focuses on the damaging impact of the old paradigm on labour, deemed to be one of the fundamental components of what business is supposed to generate for society. He suggests that the cooperative movement should establish its own rationale instead of adapting to others', and work towards an environment where democratic enterprise would hold the central place in the economy. It should develop corresponding indicators, and establish an alliance on this agenda with the trade union movement.

Claudia Sanchez Bajo, using a political economy analysis, observes an ongoing policy shift away from GDP as *the* measure of growth. New theories are emerging out of the demise of the old paradigm, and the cooperative movement should fully enter this

debate instead of fighting against 'old windmills'. She argues that the cooperative movement should engage boldly in new streams of research, in the fields of economic measurement, resilience and shared value, in which substantial theoretical advances are presently being made outside the cooperative movement.

**Part II**, "*Appraising cooperative value in two key sectors: agriculture and banking*", comprises two contributions providing significant recent examples of the cooperatives' role in, and impact on the economy, in agriculture in China and in banking in Europe.

Zhang Xiaoshan, a rural economist who has had a key observer position on China's rural development for decades, depicts the evolution of the new Chinese rural cooperatives, their quantitative leap forward over the last few years and their role in community development, but also their difficulties, in particular in matching supply and demand on the one hand and in reaching scales on the other. He suggests a number of key policies in the fields of multi-stakeholder governance, autonomy from governmental structures and the build-up of a fully-fledged national organisational system.

Hans Groeneveld, an economist working inside one of the most performing cooperative banking groups (Rabobank in the Netherlands), depicts the overall successful track record of European cooperative banking groups (namely horizontal groups made up of local cooperative banks) as compared to European banks in general, in terms of growth of assets, clients, loans and deposits, and involvement in the real economy, posing the hypothesis of a correlation between these proven successes and the governance structure of such banking groups. He strongly calls for the launching of a vast international research programme which could provide evidence of, among other indicators, the degree of client satisfaction.

**Part III**, "*Revisiting the future*" (in the sense that if we adopt the necessary strategy and behaviour, instead of repeating past mistakes, we can change the



vector of time and improve our future), is composed of three think pieces with innovative paths and proposals.

Patrizio Bianchi, an industrial economist from the Italian Region of Emilia-Romagna, where the cooperatives' contribution to the economy is around 30% and cooperative employment is around 15% of the total, takes a bird's view of enterprises and entrepreneurship across the world from a network perspective, faithful to Emilia-Romagna's industrial district dynamic, arguing that a complete overhaul of the world's industrial landscape is in the making. Within this context, Bianchi sees an enormous potential for the development of cooperatives as enterprises of persons embedded in local communities. He explains why the role of cooperative *systems* is so important in this respect, not only nationally but also and increasingly internationally. He also emphasises the need for a totally fresh approach to research and training, geared to cooperatives' specific needs and characteristics.

Vishwas Satgar, from a green political economy standpoint, brushes a dramatic picture of an ongoing global crisis of civilization, emphasising the latter's destructive socio-environmental impact. He mentions not only the ravages on the planet's natural resources but also the dramatic increase in the rate of suicides and of death by hunger in spite of an increasing agricultural production, all scourges which his continent, Africa, suffers particularly hard. He argues that the cooperative movement should be far more articulate and proactive in confronting these world challenges, and particularly the one of food *sovereignty*, in alliance with global social movements that are gathering momentum.

Finally, Anup Dash, an Indian sociologist with a long experience in impact assessment systems, argues that the old and losing-steam concept of growth as it is presently understood will have to be challenged from other standpoints such as the environment, wellbeing and inclusion, as well as democratic governance, providing a golden opportunity to develop

a completely new and innovative approach. He argues that cooperatives could play a fundamental role in this breakthrough, but observes that they are still very fragile to take up such a challenge and that they need to refurbish their toolbox if they want to be at the forefront of the big transformation. He argues that the cooperative movement should urgently work towards a well-articulated social accounting system and R&D in organisational innovation and excellence, which will require greater collaboration between researchers and practitioners, so as to generate a totally new theoretical framework in which growth in general and cooperative growth in particular will be analysed and appraised.

This report is an attempt at redefining growth as a multifaceted and multidimensional concept, which should respond to specific but common needs. Cooperatives should take the historical opportunity of new theory and thinking to reshape the view of growth, in order to define how cooperatives can indeed become the "*fastest growing*" part of the economy at the end of the decade.

At the same time, the purpose of this document is not to provide the perfect response nor the toolbox for ready-made answers, but to suggest paths to envisage a shared future and how we can measure its growth, and to call for further discussion and research within the cooperative movement and between the cooperative movement and other stakeholders in the economy on this topic. It provides material and ideas to develop such a debate, which could hopefully be launched within the various organisations and bodies of the international cooperative movement at all levels.

# Part I

From crisis to growth:  
updating frameworks



# GROWTH AND DEVELOPMENT: BACK TO FIRST PRINCIPLES

PIERRE LALIBERTÉ

“The crisis consists precisely in the fact that the old is dying and the new cannot be born; in this interregnum a great variety of morbid symptoms appear...”

(Antonio Gramsci)

The financial breakdown and its aftermath have been the most spectacular manifestation of an even more profound problem in our societies, one that we could assimilate to a crisis of paradigm, and even ultimately to a moral crisis.

The paradox is that the dying paradigm that has brought about the dysfunctions in the first place remains, in the absence of a new one, the frame of reference to deal with the consequences of the crisis itself, leading to further “morbid symptoms”. Even though the paradigm has failed, it still stands by the sheer weight of its institutional strength, but again in large part because alternative notions have failed to gain enough intellectual grounding and political traction.

So the challenge we face is not just that of overcoming the consequences of an economic breakdown, but that of fully appreciating its nature and providing appropriate responses to it.

Neoliberalism has enshrined a “winner-take-all” approach to economic and social affairs that is unsustainable in the long-run. Unsustainable in environmental, economic and social terms.

A component of the approach is the “shareholder value” doctrine that dominates corporate governance and has helped provide a seemingly “scientific” patina to otherwise self-serving corporate practices. As we all know, this philosophy has had numerous effects, one of which has been the neglect of stakeholders and a justification for all sorts

of deleterious if not downright anti-social behaviours such as the closings of profitable business concerns, stratospheric executive pay, handsome rents to players in the financial sector, and tax avoidance schemes to name a few.

The consequences of the rise in pre-eminence of large financial actors and their priorities are by now well-known and have helped mould the context in which most of the business activities of public corporations take place: “short-termism” being the most prominent. If capital needs as quick a turnover as technology will permit, it is not the same with stakeholders, communities and the environment.

All of this would not have had such disastrous consequences had there not been a parallel drive to deprive the public (and democratic) sphere of its power. Public authorities having lost *de facto*, if not given up *de jure*, some of their regulatory powers, all in the name of unleashing the forces of the market, thus conforming to and comforting the “efficiency” principle of neoliberal thinking.

The single-minded pursuit of economic liberalisation through financial, trade and investment agreements has not only allowed large corporations to engage in “jurisdictional shopping”, but created a context where it has become extremely difficult for even the most well-intentioned government to put a stop to well-known abuses. One has only to think of tax havens which have been identified as a problem long ago, and where mild political action is only beginning to be felt.

The widespread cynicism of the electorate in most democratic systems around the world and the rise of populist movements bear witness to the growing incapacity of governments to provide solutions to enduring problems and certainly constitute a most worrisome morbid symptom.

**Economically, neoliberal policies are undermining the basis of the system’s own sustenance. This is apparent when it comes to financial deregulation or tax evasion, but it is even more obvious when it comes to the treatment of workers.**

The most important development in this area has undeniably been the “re-commodification” of labour. Indeed, one of the big achievements of the twentieth century had been the gradual (but incomplete) civilizing of work through collective bargaining and employment standards, not to mention social protection systems. Nothing was ever perfect, but workers, at least in economically developed countries, could aspire to decent conditions of work and to economic security. The promise of economic “growth” for workers in “developing” countries was precisely that they too could aspire to such economic security. The past thirty years have seen a slow but steady unravelling of this state of affairs at all levels.

At the economic policy level, the new orthodoxy decreed that trying to reach full-employment with macroeconomic levers was not only vain but perverse. Monetary policy, the key element, was taken out of the hands of governments and its key objective was no longer full-employment but economic “stability” (more often than not reduced to the financial industry’s favourite of low inflation).

Employment creation was no longer a derivative of aggregate demand as Keynes had proposed, but was deemed the direct outcome of the workings of the labour markets themselves. Thus key to employment creation for the OECD, the IMF among others, was now to deregulate the labour market and take away some of the protections. It is indeed quite telling that in the aftermath of a *financial crisis*, the main remedy put in place in many countries has been, yet again, “structural” reforms to make labour markets more flexible.

But neoliberal globalisation of corporate practices has also played a central role in the “re-commodification”. Most notably, it has spanned vast chains of subcontracting that have in effect dissolved the traditional employer-employee relationship. Large corporations are thus able to evade their rightful responsibilities as “orders givers” as easily as they can evade paying taxes. Continuing efforts to instil “corporate social responsibility” bears witness to that enduring problem and the incapacity of public authorities (*de jure* or *de facto*) to come to terms with it.

A direct consequence of such strategies has been a significant growth of precarious work all over the world. The development of more precarious forms of labour have been particularly visible in countries with a more solid tradition of steady full-time employment contracts, but they are present everywhere. Indeed, workers in developing countries are deprived of one of the traditional gains of the formalisation of the economy, i.e. permanent full-time jobs in respect of their democratic rights.

Crucially, the “winner-take-all” approach has translated into growing inequalities spanned by a concentration of gains at the top and by the impoverishment of social transfer programs. The issue of inequality has even become prominent enough for the OECD and the IMF to start paying attention.

Besides its clear effects on livelihoods and social cohesion, this trend towards inequality has also a key systemic effect through the disconnection between wages and productivity gains.

For reasons that should be obvious,

this link can be described as one of the most important contribution of the labour movement to economic development. By ensuring that wages, particularly those of the least skilled, were broadly in line with the productive trends of a given economy, collective bargaining aligned consumption levels with production, making so that the fruits of economic activities were relatively well distributed, thereby creating the basis for a stable economy and a well-functioning welfare state. At the workplace level, this also translates into negotiated outcomes which are more conducive to building trust and problem-solving.

Neoliberal logic which has had the pretention of offering an efficiency principle in both the economic and social realms is creating to the contrary a dysfunctional, unstable and unsustainable world order. It has both devalued the democratic currency and, ironically enough, impoverished the value of work in our societies. We will say nothing here of the impending environmental crisis.

None of the above observations are novel. The malfunctions of the system have been diagnosed

numerous times in recent years and many “fixes” have been proposed. Yet, what is remarkable is the seeming political incapacity to articulate solutions, never mind putting them into place.

Certainly part of the problem has to do with the creation of a global economic space that has reduced the margin of influence of national governments and social actors. The world, it seems, can only go as fast as the slowest links in the chain, creating virtual global paralysis around major economic and social challenges.

But part of the problem is also one of an alternative paradigm. Surely many well-intended reforms are put forward, but they typically failed to offer a coherent value framework. The traditional alternative frameworks of the left for their part have either, rightly enough, lost their appeal in the case of communism, or as in the case of social-democracy seem to have become too functional to neoliberal thinking to offer meaningful solutions.

The trade union movement is not immune to this crisis of ideas, much of its policy contributions, worthy

as they are, being in line with Keynesian-inspired notions.

I would offer that the discussion about alternatives should, simply enough, start from “first principles” that are at the heart of our political community: the dignity of human beings, solidarity, and democracy.

The cooperative movement has a lot to teach in this area. And not surprisingly, as it is customary in times of hardship, interest has increased in the contribution of cooperatives. The resilience of cooperatives in times of crisis demonstrates that the cooperative model adds value to both economic and social outcomes.

However, rather perversely, when economic reforms are advanced (e.g. the reform of the banking sector in Europe), little attention is being paid to the good record of cooperatives and the lessons it holds, and it is cooperatives that have, in the end, to adapt to reforms geared at the failing of more conventional firms.

More generally, it is telling that the concept of the “social economy” that has emerged in recent years as a catch-all category for cooperatives and non-profit organisations has been seized upon in neoliberal policy circles as the privileged player to operate in economic sectors with low profit margins, notably that of social services. In this view, the “social economy” becomes functional to the neoliberal economy, ideally bringing an “entrepreneurial” culture to the provision of services that might be otherwise supplied directly by state agencies...

It might be time for the cooperative movement to stop “adapting” to

the environment set by other less successful players and seek more fundamental changes to the legal and economic frameworks in which it operates to make them more congruent with its own purported set of values. Given their track record, should it not be capital-based firms that should adapt to a more worker/community-oriented model?

The “economic” question then becomes: how do we go about creating an economic and legal environment where democratic and person-oriented enterprises are not at the margin of mainstream economy, but hold the central place?

The trade union and cooperative movements have all to gain to pursue the discussion about an alternative growth and development model. In fact, it is fair to say that to gain a social grounding, this discussion *requires* the active contribution of both actors.

A first small step might be to develop proper indicators of growth and development. What we measure affects what we do; and our indicators of economic progress should be in line with our collective values. Current growth indicators are widely seen as inadequate to the task. What are indicators that would better reflect human progress? Furthermore, the context of the discussion on the post-2015 sustainable development agenda

could offer an opportunity for a joint contribution on this important debate.

Of course, the corollary to using more appropriate indicators is that cooperatives should themselves do a better job of monitoring their own “indicators” such as to better illustrate and monitor their own performance.

Another area of *common* reflection should be that of creating an institutional support system (legal, regulatory, financial and technical) to foster the creation of cooperatives and the transfer of enterprises to employees as the basis for an alternative

## What would such an environment look like? What would be its building blocks and what would be its impact on the concept of growth?

development strategy. If the cooperative movement would be at first sight the most immediate beneficiary of such a discussion, trade unions would also gain by becoming themselves more direct and active agent of development, affording them one more tool in the pursuit of their mission. Such a discussion would of course have to address head on the issue of trade unions-cooperatives relationships and the irritants that often emerge in the area of worker representation.

If both movements are true to their mission of working to ensure the economic security of workers and their communities, in the current economic and social context, they are condemned to talk to each other so that the “new” can at last “be born”...



# PLACING COOPERATIVES IN UP-TO-DATE THEORETICAL DEBATES

CLAUDIA SANCHEZ BAJO

There is definitely the need to leave behind the debate on cooperatives framed in outdated theoretical underpinnings and step into current theoretical research and discussion. First, let's concentrate on the concept of growth both economic and business wise.

Although some continue to uphold rapid economic growth as the primary goal, as Jagdish Bhagwati has done in his recent clash with another Indian economist, Nobel Prize Laureate Amartya Sen<sup>3</sup>, institutions such as the OECD have acknowledged the limitations of the concept of growth and sought to overcome them at least since 2000<sup>4</sup>. Still, growth was their main goal and sustainable development was intended as a complement, linked to issues of governance.

Today, a policy shift is beginning to take hold and is announcing another shift, one that takes longer but is also on the way, a theory shift that upholds *cooperation* at the center of our future. From neoclassical theory and Solow's model in which technological change was exogenous, we have entered a period of neo-institutionalism and endogenous growth theory that includes increasing returns to scale and entrepreneurship, while markets are defined by imperfect information, imperfect competition, knowledge networks and business models centered on cooperation.

## POLICY SHIFT

An example of the policy shift is found in US states. The State of Maryland's GPI or Genuine Progress Indicator with 26 variables<sup>5</sup> has replaced the former GSP (gross state product) to include indicators on inequality and most importantly, measure sustainable economic wellbeing<sup>6</sup>. US president Obama himself, in annual economic reports, calls for "moving beyond anachronistic measures of economic performance".

Why? GDP tells only about quantity of goods and services and how much these are paid for. So, if diseases multiply and we pay more for them, it is a good thing in terms of GDP. GDP does not tell us about sustainability, and does not account when a country depletes its capital stocks. GDP cannot alert us about environmental or social needs, or inequality red lines that will endanger social cohesion and wellbeing and put a burden on society and the economy as a whole, like geospatial concentration in rapid urbanization stemming from rapid economic growth. GDP does

*not* tell about inequality, now recognized as one of the main drivers of household indebtedness that led to the mortgage crisis and the Great Recession in the US, that later turned into a Global Crisis. Neither does GDP alert us about incoming crises due to debt financing. GDP takes into account monetary flows but says nothing about debt and the interest paid on it. For example, US GDP was soaring just before the last financial crisis and was telling a very different story to what soon became the worst of times since the 1929 Recession.

*Economic growth* is concerned with the long-run trend in production due to structural causes such as technological growth and factor accumulation, but it says nothing about factor depletion and technological change. GDP is portrayed as a positive sum game, which has not been the case in more instances than what is normally believed: examples are found in fiscal policy, deficit spending, the use of finite

resources and clustering of wealth.

In terms of *business model*, growth lends to large scales in business along Chandler's analysis, while the 'good' enterprise model is the enterprise listed on the stock market with investors as its shareholders, who would benefit from growth. Yet, recent analyses provide evidence that economic growth and stock market returns are negatively, not positively, correlated. A study by Dimson, Marsh and Staunton at the London Business School on 19 countries between 1900 and 2011 demonstrates that "the correlation between the compound real rate of return on equities and the compound growth rate of real per capita GDP is minus 0.39... Similar analysis of 15 major emerging markets between 1988 and 2011 produces a remarkably similar negative correlation of minus 0.41."<sup>7</sup> Growth used to be linked to financial wealth but these studies provide evidence to the contrary. Dividends and returns, instead of stock markets, begin to get more attention in policy and business.

3- Mahr, K (2013) The clash between two famous Indian economists echoes larger battle, 31 July, <http://world.time.com/2013/07/31/india-economic-gurus-clash-over-strategy-but-the-state-needs-fixing-too/>

4- OECD (2002) Governance for Sustainable Development, Five OECD case studies, OECD, Paris.

5- See <http://genuineprogress.net/genuine-progress-indicator/>

6- Talberth, J. D. Wysham and K. Dolan (2013) Closing the inequality divide, a strategy for fostering genuine progress in Maryland, March, [www.ips-dc.org](http://www.ips-dc.org)

7- Rising GDP not always a boon for equities, by Steve Johnson, 14 April 2013, <http://www.ft.com/intl/cms/s/0/8b5ae298-a065-11e2-a6e1-00144feabdc0.html?siteedition=uk>

Finally, GDP does not consider the non-market aspects of the economy. In so many ways, GDP can be a very misleading figure, leading us onto an unsustainable path and leaving societies unprepared to looming crises brought up by the very efforts of fostering rapid GDP growth.

In 2008, at the initiative of the French government, Nobel Prize Laureate Joseph Stiglitz chaired a commission that included Nobel Prize Laureate Amartya Sen, to revise the measurement tools and indicators of economic performance and social progress, in particular those based on GDP. Its report was

made public in September 2009<sup>8</sup>. The main outcome is that GDP is flawed. Stiglitz and other members of the commission continue to develop new ways to measure the economy.<sup>9</sup>

Christian Felber argues that his “common welfare economy” is part of a market economy where the goals of private business, instead of profit-oriented and competition, actually mean the pursuit of the common good and cooperation<sup>10</sup>

A group of entrepreneurs has taken this shift very seriously in Austria, Switzerland and Germany. Felber’s proposals are

actually close to Brazil’s solidarity economy approach.

In the US, the Bank of North Dakota is presented as a good bank owned by the democratic community and distributing low-interest or interest-free credit for, among others, public projects and for businesses thought to be aligned with the common good.

In Switzerland, Davos World Economic Forum founder Klaus Schwab has proposed to limit the highest rent at factor 20, namely, that the highest salary should not be beyond 20 times the minimum salary.

## THEORY SHIFT TOWARDS COOPERATION AND THE GENERATION OF SHARED VALUE

There is an ongoing theory shift towards the ideas of cooperation and shared value in the economy, and systemic uncertainty and complexity.

In 1990, business research entered a new era with Walter Powell focusing on networks.<sup>11</sup> Based on Coase’s view of the firm as a governance structure, his research agenda included issues such as the phenomenology of work as different from both market transaction and hierarchical firm; and the question of whether there are novel problems of control in networked business arrangements. In 2004, Powell and Snellman asserted that so far the literature on the knowledge economy “attends less to knowledge dissemination and impact. This neglect is unfortunate because a key insight of the productivity debate is that significant gains in productivity are achieved only when new technologies are married to complementary organizational practices. Information technology that facilitates the broad distribution of knowledge is not successfully tethered to a hierarchical system of control.”<sup>12</sup> In all these insights, cooperatives could

contribute with studies on how cooperative work and enterprise could lead to gains in productivity with their specific type of governance, management and control.

In January 2011, Michael Porter published “Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society”<sup>13</sup> arguing that the competitiveness of an enterprise and the health of the communities in which they exist are mutually dependent.

Cooperative entrepreneurship is a rapidly evolving field. Research on networks was traditionally linked up with entrepreneurship. It is now standard theory that entrepreneurship is carried out through networks<sup>14</sup>. Unfortunately, while this is becoming an important field of research, research on cooperative forms of entrepreneurship have got little or no attention.<sup>15</sup>

## STEPPING OUT

Instead, research on cooperatives tends to be discussed against old theory. At an academic conference on cooperatives in 2012, “[a]ll conference presenters agreed on the need to challenge the widespread belief that cooperatives are generally less efficient than investor-owned enterprises... particular attention was paid to three limitations of existing theories... that the main condition of efficiency is the specialization of tasks deriving from the division of labour. ... the social division of labour... this assumption disregards the efficiency gains that can result from cooperation...”<sup>16</sup>

8- Commission on the Measurement of Economic Performance and Social Progress, <http://www.stiglitz-sen-fitoussi.fr/en/index.htm>

9- Prof Joseph Stiglitz, GDP is flawed, at <http://www.youtube.com/watch?v=EARdeBo7mKk>

10- Felber, Christian. 2012. *Die Gemeinwohlökonomie: Eine demokratische Alternative wächst*, new revised edition. Deuticke, Vienna.

11- Powell, W (1990) Neither market nor hierarchy: network forms of organization, *Research in Organizational Behavior* 12: 295-336

12- Powell, W. and Snellman, . (2004) The knowledge economy, *Annual Review of Sociology* 30:199–220 [http://www.stanford.edu/group/song/papers/powell\\_snellman.pdf](http://www.stanford.edu/group/song/papers/powell_snellman.pdf)

13- Porter, M. (2011) Creating Shared Value. *Harvard Business Review*; Jan/Feb volume 89, Issue 1/2: 62-77

14- Jack, S., Rose, M. & Johnston, L. (2009) Tracing the historical foundations of social networks in Entrepreneurship research, Lancaster University, in ISBE and at [www.isbe.org.uk/content/assets/BP09-SarahJack.pdf](http://www.isbe.org.uk/content/assets/BP09-SarahJack.pdf)

15- Jussila, L., Kalmi, P. & Troberg, E. (2008) Cooperative research in Finland and globally, [www.osuustoiminta.coop/tekstit/cooperative\\_research%20\\_final.ppt](http://www.osuustoiminta.coop/tekstit/cooperative_research%20_final.ppt)

16- Euricse conference report 2012, Venice, Title 4 ‘Interpreting cooperatives’, page 18



When rethinking growth and cooperatives, “the second limitation is the assumption that competitive markets and contracts are the most efficient social institutions for coordinating independent, specialized, and rational agents.”<sup>17</sup> The third limitation is the assumption that “economic agents are fully rational and self-interested”<sup>18</sup>; the reason for the third limitation being the utilitarian maximization of benefits. Yet, new theories talk about irrationality on the one hand and on the other hand provide evidence that human beings and animals are cooperators by nature.

Cooperatives do not need fighting against old windmills, as current theory speaks of coordination and cooperation in imperfect markets, valuing cooperation and non-hierarchical control. The above-mentioned 2012 report mentions hierarchy, but the issue is not further elaborated in the report. Should we not discuss the issue of coordination and control beyond hierarchy which is not working well in the era of internet and globalization? We definitely need to weed out old theories and bring in the latest theoretical developments of the last decades.

Finally, there is an ongoing shift in physics with strong influence onto social science and how we conceive and perceive the world. We are passing from a Newtonian paradigm concerning deterministic evolution to theories of complexity and thermodynamics.

To build up research on entrepreneurship, Bygrave says: “It seems to me that we need to suppress our physics envy and cultivate more independence in our research methods... But the essence of entrepreneurship is a change of state. And a change of state is a holistic process in which the existing stability disappears.”<sup>19</sup> We could say the same of cooperatives and the envy of both conventional enterprise and non-profit organizations.

## CONCLUSIONS

Four major changes under way have been mentioned here:

- a.** a shift in physics, from a Newtonian thinking towards a thermodynamic paradigm;
- b.** a shift from GDP as the outcome of exchanges towards the measurement of a circular entropic system that internalizes all costs and dimensions, including the loss of energy and life through consumption and production;
- c.** a shift from social acts and organization in response to specific outcomes towards the idea of resilience as social action that not only strives for sustainability but also and more importantly, strives for preparedness in the uncertain event of a future shock or crisis;
- d.** a shift from individual value towards shared value.<sup>20</sup>

These major changes under way call for a focus on coordination, cooperation, empathy and ethical behaviour. Main streams of research will include:

- a.** the measurement of an economy with all externalities accounted for;
- b.** the resilience of business and communities;
- c.** business shared value.

As growth and GDP are redefined, cooperative enterprises and cooperative research should actively participate in their redefinition. The new thinking may well be called cooperative economics, and cooperatives should be well placed to be recognized as leaders as far as they will carry with them the universal needs of the time. As cooperatives are resilient in times of crisis, and they respond to needs and aspirations in both normal and crisis times, they provide a business model that most probably will be central to our future.

17- *Ibid.*

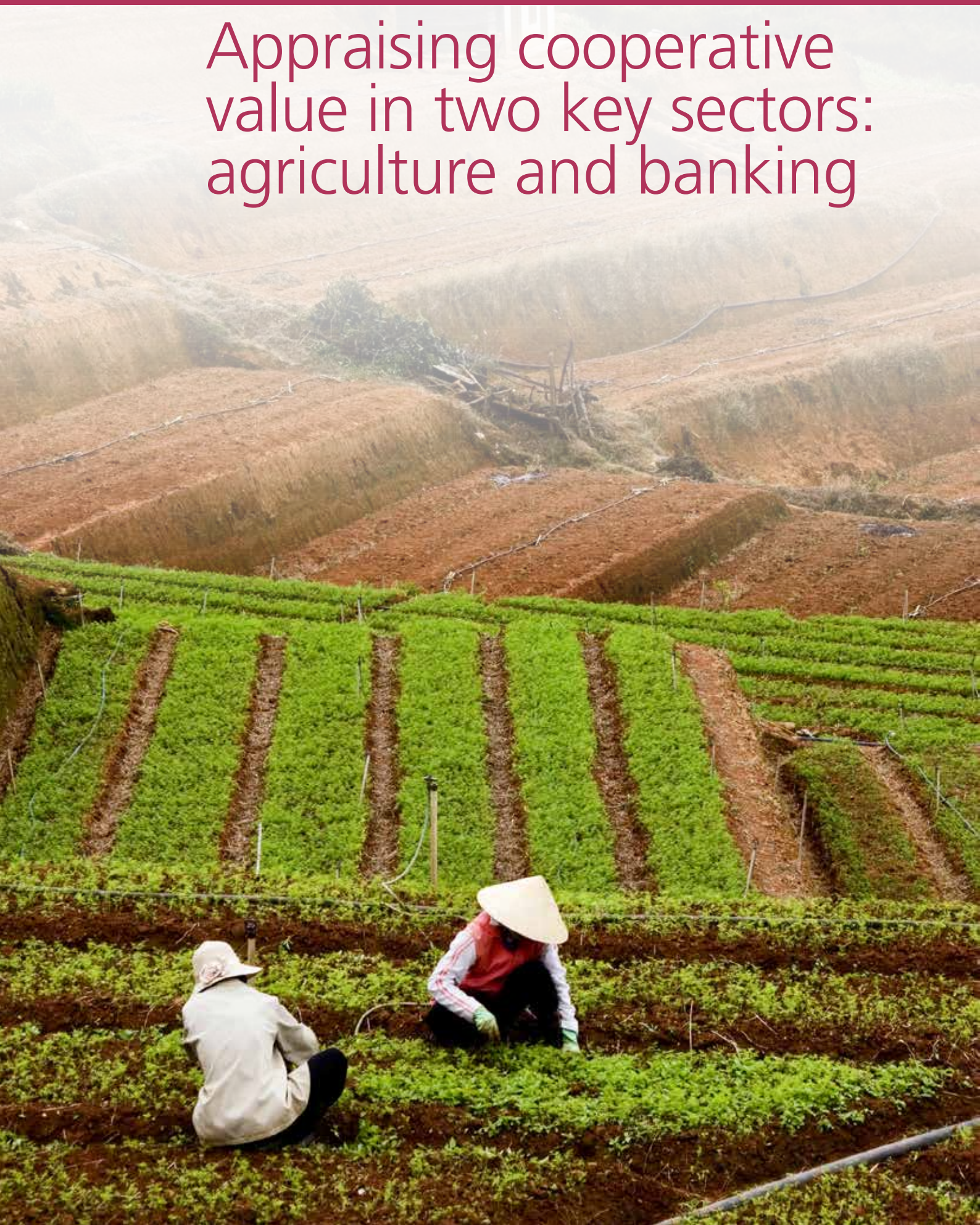
18- *Ibid.*

19- Bygrave, W. (2007) The entrepreneurship paradigm (I) revisited 17-48, in Handbook of Qualitative Research Methods in Entrepreneurship, Neergard, H. and Ulhøi, J. editors, Edward Elgar: MA, USA.

20- Porter, Michael *et al* (2011) Measuring Shared Value – How to Unlock Value by Linking Social and Business Results; Boston: FSG

# Part II

Appraising cooperative value in two key sectors: agriculture and banking



# CHALLENGES FACING THE DEVELOPMENT OF FARMERS' SPECIALIZED COOPERATIVES IN CHINA

ZHANG XIAOSHAN

On October 31, 2006, the Standing Committee of the National People's Congress of China passed the Law on Farmers' Specialized Cooperatives, which went into effect on July 1, 2007. This marked the first time farmers' cooperatives had legal status in China and could trade with other economic entities in the market and carry out economic activities as market players. Farmers' specialized cooperatives (FSCs) have developed rapidly in China over the past five years, but they are facing new challenges.

## GRADUALLY STANDARDIZING FSCS IN THE COURSE OF DEVELOPMENT

As of the end of March 2013, there were more than 730,000 FSCs registered in China, made up of more than 54 million rural households. Recently, more than 10,000 cooperatives have been added each month, which has brought total rural households enrolled in FSCs to more than 20% of total rural households. However, of the enrolled FSCs, some are only loosely established. Although they are registered with the local Bureau of Industry and Commerce, they do not have established offices and some have not yet come up with a brand name. Some FSCs are simply intermediary organizations engaged in technical services or logistics and do not have the economic capabilities to engage in business activities. There are also some FSCs that have the necessary economic capabilities and are led by agriculture-related companies, large-scale specialized farming households or big shareholders. The development of cooperatives is showing signs of diversity, with variations in their quality. Data relating to the development of FSCs should be analyzed and judged realistically, as it is important not to overestimate the true driving force cooperatives provide to farmers. In the future, FSCs need to gradually become more standardized as they develop, and emphasis needs to be shifted from quantitative expansion to improving quality.

## CAN COOPERATIVES LED BY LARGE-SCALE SPECIALIZED FARMING HOUSEHOLDS BECOME A DESIRABLE GROWTH MODEL?

Among the core values of cooperatives are self-empowerment, democracy, equality, fairness and unity, and among their basic principle we find that the ownership, control and benefits should belong to members. In China's cooperative practice, the people who are enthusiastically organizing and developing cooperatives in China's villages are large-scale specialized farming households who are often part of a disadvantaged group (struggling amid market competition) and have certain economies of scale and relatively highly commercialized agricultural products. It should be said that these people represent the advanced productive forces in Chinese agriculture. They have decided to join with other producers to establish cooperatives on the basis of their own specialized production. Practice has proved that without entrepreneurs, cooperatives fail. The question is: when entrepreneurial large-scale specialized farming households are in charge of specialized cooperatives, how can they be encouraged to create a coordinated collective benefit mechanism within the cooperative with relatively small-scale farmers by adhering to the democratic control principle? How can the development of FSCs also benefit farming households engaged in small-scale part-time farming work or vulnerable groups in villages through, for example, shared services?

## HOW TO VIEW THE STATUS AND ROLE OF COOPERATIVES

In accordance with the Law on Farmers' Specialized Cooperatives, FSCs are voluntary associations and democratically managed mutually beneficial economic organizations made up of producers of similar agricultural products or providers or users of similar agricultural production and operation services. Members of cooperatives

include natural persons as well as enterprises, institutions or community groups involved in production and operation activities directly related to the business of an FSC. Farmers who are cooperative members and produce and sell agricultural products are the beneficiaries of services. Companies that process or market agricultural products are members of cooperatives and the providers of services. There is inevitably a conflict of interests between the two sides. The law permits companies (leading enterprises) to join cooperatives, which places service providers and service users in one organization. These types of cooperatives have become heterogeneous organizations with mutual interests.

Does allowing leading enterprises to join or lead cooperatives in the process of their development harm small farmers or benefit both sides and create a community of benefits? Allowing leading enterprises to be members of cooperatives essentially transfers the external relations of leading enterprises, cooperatives and farming households into a cooperative. In other words, it internalizes the relations and conflicts between the different stakeholders. Does internalizing relations and conflicts improve things? Does it constrain a company's ability to maximize profits? Such questions need to be answered through practice. Farmers who are cooperative members and produce and sell agricultural products should run their own companies, expand their economic activities into distributing agricultural products and processing, share the added value from primary agricultural products entering the secondary and tertiary industries, and eventually become both service users and service providers. This is the desirable growth model and the right direction in which we should encourage and promote development.

## HOW TO PROMOTE THE DEVELOPMENT OF RURAL CREDIT COOPERATIVES AMID DEEPENING REFORM OF THE RURAL FINANCIAL SYSTEM

The practice of developing rural finance in every country around the world shows that cooperative finance is an important part of a diversified and competitive rural financial system. However, at present, China does not have a rural cooperative financial institution that provides financial services to farmers. Without the support of cooperative finance, it will be very difficult to develop FSCs in China. At the Third Plenary Session of the Seventeenth CPC Central Committee, it was decided that "Farmers' Specialized Cooperatives that meet the necessary conditions are permitted to engage in credit cooperation." Since specialized cooperatives do not require verification, the conditions for registration are very lenient, some companies are only interested in making a profit and some lenders have used the names of cooperative's departments to take and store money or lend it for profit, thus blurring the boundary between cooperative finance and private lending, and disrupting the financial order. The development of clear policies and regulations, on the one hand, put the various financial elements back in their rightful places and effectively prevent cooperative finance from being alienated, and on the other hand, encourage and promoted the development of genuine rural credit cooperation. This is what should be achieved by deepening the reform of the rural financial system.

## HOW TO DEEPEN REFORM OF THE RURAL MODERN DISTRIBUTION SERVICE SYSTEM AND PROMOTE ASSOCIATIONS OF FSCS

In recent years, the price volatility of some agricultural products and sluggish sales have shown that small-scale farmers are unable to accurately grasp the balance between supply and demand. Scattered primary-level farmers' cooperatives or associations, relevant departments of primary-level township and town governments, and even county-level government departments are all unable to understand demand in the larger market and are unable to effectively allocate resources to match supply and demand. The imbalance in supply and demand of agricultural products calls for the establishment of farmers' cooperatives associations at the regional level and higher. The larger these associations are, the greater their ability to withstand natural and market risks and to eliminate the effects of fluctuations in agricultural production. The Law on Farmers' Specialized Cooperatives

did not mention the issue of cooperatives establishing associations. If we are pinning our hopes on specialized cooperatives that produce various types of agricultural products gradually forming a complete system as policies are introduced, we will be waiting a long time. Instead, we should fully utilize the existing institutional framework and organizational system to deepen the reform of the distribution system, develop larger platforms integrated to relevant parts of the existing rural distribution system (agriculture-related enterprises, supply and marketing cooperatives, agricultural trade associations, FSCs, farmers' broker associations, etc.), make these platforms the fulcrum for effectively matching agricultural product supply and demand and for the government to effectively regulate the market, and in the process, bring together primary-level FSCs at a higher level.

## HOW TO VIEW THE RELATIONSHIP BETWEEN FSCS AND RURAL COMMUNITY ORGANIZATIONS

Some scholars believe that an effective way to develop cooperatives in East Asian societies that have large numbers of small-farmers is to develop multi-functional cooperatives similar to comprehensive agriculture cooperatives in Japan. In rural China, the collective ownership of rural land, which includes agricultural land and rural collective construction land, provides the legal basis for village community organizations to carry out economic activities. It also means that Chinese rural community organizations are the mother and cradle of specialized cooperatives. In the process of developing specialized cooperatives, the exchange of contracted land use rights and the allocation and use of resources such as water and electricity are all inseparable from village community organizations. After the Law on Farmer's Specialized Cooperatives was promulgated, as local governments began paying greater attention, the functions of specialized cooperatives increased and their role was enhanced. The more active specialized cooperatives are, the more economic ties they have with village community organizations, and the more prominent conflicts and issues related to integration become between market-oriented trans-regional specialized cooperatives and local village community organizations. This should be clarified in theory and in practice.

## HOW TO CORRECTLY HANDLE THE RELATIONSHIP BETWEEN COOPERATIVES AND LOCAL GOVERNMENTS

The development of cooperatives needs to be adapted to the stage of development of the local economy. If this is the case, success will come naturally when conditions are ripe, so advice should be given that is appropriate to the situation. During this process, farmers should participate voluntarily and the government should encourage, guide and support the development of FSCs. The government should not interfere, but simply play the role of a catalyst, and should particularly avoid setting targets and tasks or applying too much pressure while cooperatives develop. But to genuinely support and not interfere in cooperatives, local governments need to remove institutional and structural obstacles.

If China's specialized farming households in FSCs can genuinely become the main owners of the assets of cooperatives, controllers of the affairs of cooperatives and the beneficiaries of the services provided by cooperatives, and if they boldly explore the change in institutional framework, then they will be able to respond to the challenges they face and resolve the various confusing issues. Their experience of success or failure will enrich the theory and practice of cooperatives and provide much needed contributions to the international cooperative movement.



# COOPERATIVE BANKS AND THE REAL ECONOMY: A LONG-STANDING AND CLOSE CONNECTION

HANS GROENEVELD

## INTRODUCTION

This think piece focuses on two qualitative assertions about European cooperative banking groups (henceforth: ECBGs) stemming from existing reports and documents: the proclaimed focus of ECBGs on customer value and the real economy. The think piece deliberately looks at the aggregated development of cooperative banks, and not at individual cooperative banks. Our approach therefore allows for general conclusions and observations. We begin with a brief description of the backgrounds and evolution of ECBGs since their establishment a century ago. This clarification provides useful insights for understanding their current business orientation. The think piece ends with some serious food for future thought.

Newly constructed data on fifteen ECBGs show that they are still mainly focused on retail banking. This type of banking is closely linked to the real economy. Their business orientation can be largely ascribed to their specific governance with member influence and authority. The data also reveal that ECBGs behave differently throughout various stages in recent business cycles than all other banks. They are robust pillars in the financial intermediation process and provide households and firms with loans and credits

in economically good and difficult times. ECBGs also seem to behave in a counter-cyclical way and dampen economic cycles. ECBGs also exhibit a relatively smooth growth pattern over the last decade. They expanded considerably faster than all other banks in their respective banking sectors and strengthened their market position. ECBGs attracted more members and expanded their shares in key markets. This could reflect an increased enthusiasm for the cooperative model, disillusionment with other banks, or both.

To date, ECBGs are confronted with increased volatility in results, a surging number of bankruptcies of SME firms, a damaged reputation of the entire banking industry and an explosion of regulatory and compliance measures and costs. In fact, due to their close ties with the real economy, ECBGs probably suffer more from economic slack in local economies and declining industries in the regions where they operate. Consequently, they have to find ways to increase their efficiency to survive in the new market environment. In the past, ECBGs have demonstrated their capacity to adapt to changing circumstances. Of course, this is no guarantee for future success.

## THE TRANSFORMATION OF LOCAL CREDIT COOPERATIVES INTO ECBGS

The history and evolution of many ECBGs is extensively documented. In short, most cooperative banks were established more than a century ago in response to the problems that small urban and rural businesses had in accessing financial services. These groups could only obtain loans at exorbitant interest rates from money lenders. From the very first credit cooperatives promoted by Schulze-Delitzsch (1808-83) and Raiffeisen (1818-88), they adopted an organizational model based on democratic governance and mutualism. Beginning in Germany, the cooperative banking concept gradually dispersed to the rest of the continent and to the Nordic countries. It was about offering opportunities for banking inclusion to large groups in society via dense branch networks. They could do so because members funded the institutions and were involved in the decision-making process.

In line with their objectives, credit cooperatives did not aim at maximizing short term profits, but profits were necessary for further growth and were for the larger part retained and added to the capital base. This feature made them financially solid and well capitalized with a low risk profile. Credit cooperatives also inherently strived for long term relationships with their members, who were clients, owners and depositors at the same time.

Over time, the cooperative banking model evolved and differentiated into a multiplicity of European institutions with characteristics reflecting the needs of cooperative members on the one hand and the specificities of national legislative frameworks on the other. The majority of local credit cooperatives developed via national (network) organizations

into internationally active banking groups. Striking differences include the extent of centralization and integration within the networks, the size and focus of international activities, and the design of the cooperative governance with member authority. These developments were also partly prompted by regulatory requirements or the necessary realisation of economies of scale and higher efficiency levels. Some ECBGs have

sold a part of their business activities to investors or became partly listed. Hence, hybrid types of financial cooperatives have emerged. It is fair to say that not all cooperative banks managed to survive the ravages of time. Quite a few cooperatively organised banks were unable to adapt to technological, social or competitive changes and consequently disappeared or now just live a marginal existence.

## TWO CLAIMS

The described transformation process raises the question whether the current ECBGs are still acting in accordance with the democratic and governance principles of the original credit cooperatives. Moreover, it can be questioned whether they have kept the same orientation. Interestingly, the aftertaste of many recent articles and reports is that ECBGs still have internal characteristics and a business orientation which can be traced back to the key features of the former

credit cooperatives. However, these claims are hardly corroborated with empirical data. In short, member ownership is believed to contribute to continuity and a cautious course of ECBGs via specific internal governance mechanisms. Two important assertions pertaining to the link between ECBGs and the real economy can be inferred from existing documents and reports.



### *1. ECBGs have a strong customer focus and client proximity*

It is hypothesized that member influence ensures a strong focus on delivering customer value, i.e. putting customer interests' first, and maintaining dense branch networks. It is also stated that this physical proximity to customers and members is further reinforced through the participation in numerous social networks and by actively supporting a sustainable development of local communities. This would be accompanied by a long-term view of relationships with local businesses and municipalities and an innate focus on customers. The alleged strong local ties and networks are assumed to lead to relatively stable lending to households and corporate customers in economically good and bad times.

### *2. ECBGs are relatively stable institutions with a focus on retail banking*

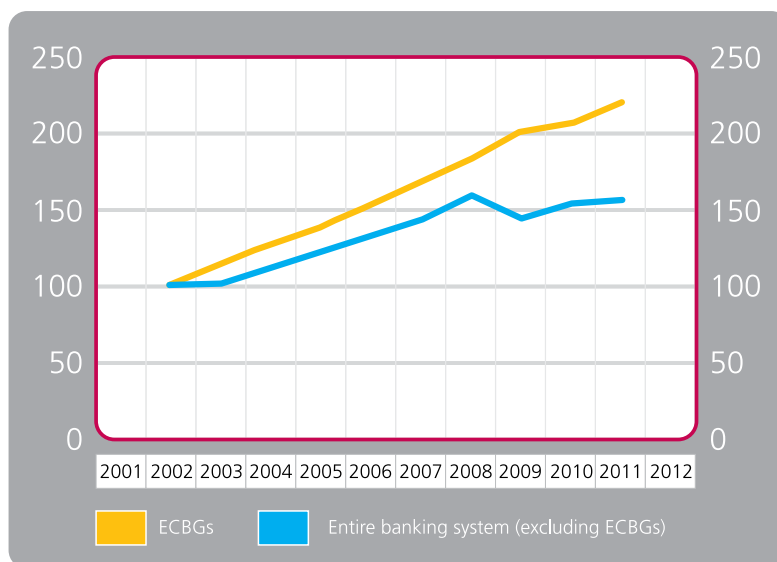
Because of member ownership, ECBGs are also believed to be mainly focused on retail, commercial and SME banking. Consequently, they would have a bias towards serving and financing 'real economy' activities. This area of banking is associated with relatively stable income streams across business cycles and a moderate risk profile, e.g. compared to wholesale or investment banking. Due to their specific governance, they cannot obtain capital by issuing shares. This limited access to third party capital should naturally lead to conservative behavior. This would mean that ECBGs steered away from riskier activities and practices and are operating at relatively high capital levels. This would enable them to keep on granting loans to members and customers for a longer period in times of financial and economic distress than other banks.



## STEADY GROWTH OF ECBGS

Chart 1 visualizes the growth of ECBGs in terms of balance sheet total compared that of entire banking sectors in their respective countries. Since 2002, total assets of ECBGs grew by almost 120 per cent, whereas the assets of all other banks increased by around 55 per cent. The growth of ECBGs has continuously surpassed that of all other banks. Balance sheet growth of ECBGs was the result of both organic expansion and acquisitions of non-cooperative financial institutions.

■ Chart 1 Asset growth of ECBGs and all other banks (2002 = 100)



Source: individual ECBGs and European Central Bank. Data pertain to ECBGs and all other banks in Austria, Denmark, Finland, France, Germany, Italy, the Netherlands, Portugal, Spain and Switzerland.

Total assets of all other banks showed a remarkable dip in 2009, whereas ECBG asset growth just decelerated slightly. The absolute drop in assets of all other banks reflects their considerable losses just after the break out of the initial credit crisis. Some of them needed considerable state support and had to reduce their balance sheet based on the conditions attached to obtaining government aid. The chart indicates that ECBGs were less hit by the subsequent crises and showed a fairly stable growth pattern.

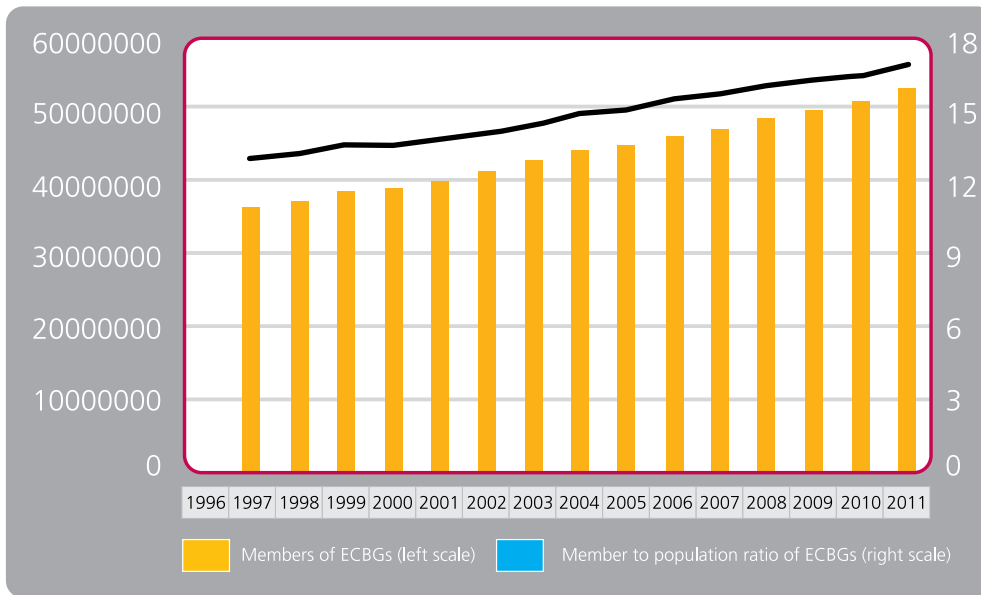
## STRONG CUSTOMER FOCUS AND CLIENT PROXIMITY?

As stated before, ECBGs frequently asserted publicly that they do not aim at maximising profits but customer value. Ideally, one would like to verify this assertion with direct insights and opinions from customers. Unfortunately, information about the perception and appreciation of customers of this proclaimed customer focus and the maximalization of customer value is not available for many banks, including ECBGs.

Hence, we have to confine ourselves to indirect proxies for customer satisfaction and advocacy. We look at member to population ratios and market shares which contain implicit information about the attractiveness and

popularity of ECBGs. Chart 2 shows the development of the number of members and member-population ratio of ECBGs in their domestic markets. Strikingly, the number of members has increased every individual year. Total number of members rose from around 37 million in 1997 to approximately 52 million in 2011, which equals a growth of about 40 per cent. On average, the member base grew at an annual growth rate of almost 2.5 per cent since 1997. In relative terms, the average member to population ratio showed an upward trend; the ratio rose from 12.9 in 1997 to 16.9 in 2011.

■ Chart 2 Number of members and member to population ratio



Source: National demographic statistics and ECBGs. Data pertain to ECBGs in Austria, Denmark, Finland, France, Germany, Italy, the Netherlands, Portugal, Spain, Switzerland.

Implicitly, the absolute and relative rises in members point to an increasing popularity of the cooperative banking model. The underlying reasons for the absolute and relative surge in members are hard to isolate and will probably be both financial and non-financial. It merely indicates that ECBGs have succeeded in attracting new members with their price conditions, products, advisory services, client approach, business models or other features. The increase also signals confidence of customers in ECBGs and indirectly supports assertions mentioned above. Indeed, clients would presumably not be very eager to become members if the level of trust and satisfaction was low and the price conditions were significantly worse compared to those of other banks. This increase is even more remarkable given the fact that membership is generally not required to have access to financial services of ECBGs to date.

The increase in the number of members has translated into rising market shares in national retail banking markets. Since 1997, ECBGs increased their domestic market shares in mortgages and consumer loans as well as in private savings steadily and continuously throughout economic cycles. On average, both retail market shares rose by about

10 percentage points to 26 per cent in 2011. In the economically turbulent years 2007-11, ECBGs also strengthened their domestic market positions, but the increase did not differ significantly from that in the period before. Like the substantial increase in the number of members, rising market shares are just signs that customers felt relatively more attracted to ECBGs for a myriad of different reasons.

Financial cooperatives have historically maintained extensive branch networks to support strong links to their members and communities. Although ECBGs underscore the urgency to focus on efficiency improvements in their networks as a result of mobile banking, contactless payments and integrated cash management, they still operate with relatively dense networks and have strengthened their local presence over the last decade. Their average market share for branches is approximately 10 percentage points higher than that for loans and deposits. On balance, the number of branches of ECBGs increased from around 54,000 in 1997 to more than 60,000 in 2011, whereas total bank branches decreased from 191,000 to 170,000 over this period.

Total loan and deposit growth rates shed additional light on business orientation of ECBGs. Chart 3 and table 1 provide information about total (inter)national credit growth to the non-financial private sector since 1997 for ECBGs and entire banking sectors. Credit growth by ECBGs is fairly stable and equals 8.3 per cent in every sub-period considered. This expansion exceeds credit growth at all other banks. ECBGs are more stable loan providers to the real economy than all other banks.

Table 1 Average loan and deposit growth

Period	Loan growth (standard deviation in parentheses)		Deposit growth (standard deviation in parentheses)	
	ECBGs	TBS	ECBGs	TBS
1997-2004	8.3 (2.6)	5.8 (2.6)	5.7 (2.4)	4.0 (2.9)
2005-2011	8.3 (1.8)	4.7 (5.3)	6.1 (1.4)	8.1 (6.1)
1997-2011	8.3 (3.4)	5.3 (4.0)	5.9 (1.9)	6.1 (5.0)

Source: own calculations based on figures from ECBGs, ECB and national statistics.

Note: the data are adjusted for major breaks caused by mergers and acquisitions. ECBGs stand for European cooperative banking groups and TBS stand for total banking sectors. Fifteen ECBGs from ten countries are included in the sample (see note of Chart 1).

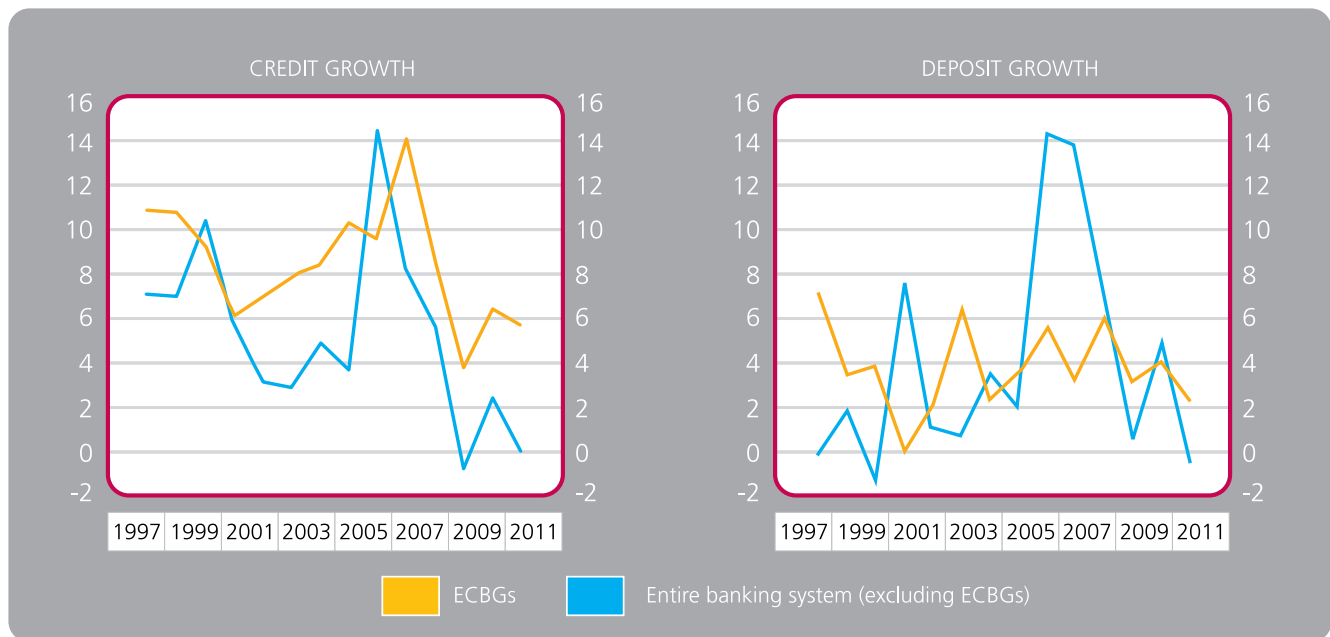
Credit growth of all other banks decelerated fiercely after 2006 and even dropped below zero in 2009 and 2011. ECBG credit growth also slowed down remarkably, but ECBGs were still able to expand their credit portfolios in 2005-11. The latter period encompasses economically difficult times. The persistently positive credit growth figures of ECBGs can be largely ascribed to their relatively good capitalization. This feature allowed them to meet the credit demand of their customers for a longer period of time. Hence, loan data illustrate the close ties of ECBGs to the real economy as well as their focus on retail lending.

Regarding deposit growth, one can also observe some striking developments. Like credit growth, deposit growth at ECBGs shows a stable pattern compared to that of all other banks. The large swings in deposit growth at other banks contrast sharply with the stable deposit growth at ECBGs. First, we can witness a sharp acceleration of deposit growth at other banks from around 4 per cent in 2005 to about 10 per cent in 2006-08. During this period, other banks presumably needed funding for the strong expansion of their

loan portfolios as well as for other investments with higher returns, which appeared to be relatively risky afterwards. Immediately after the initial credit crisis broke out, deposit growth at other banks slowed down sharply. This deceleration continued in the subsequent years when a deep economic recession and banking crisis in Europe unfolded.

When we combine these credit and deposit growth data with economic growth figures, it appears that non-cooperative banks grant relatively more loans and obtain comparatively more savings and deposits from households and enterprises in a favourable economic climate. In times of moderate economic growth, ECBGs attract relatively more savings and deposits and provide proportionally more loans than all other banks. This observation could stem from the fact that uncertainty about the health of other banks in difficult times provokes customers to choose the – perceived and acknowledged – more financially solid ECBGs. ECBGs appear to fulfil a stabilizing role in the financial intermediation process. These findings point to a safe haven effect and a risk averse attitude of ECBGs.

■ Chart 3 Average credit and deposit growth



Source: ECBGs, ECB and national statistics

Note: ECBGs and TBS stand for European cooperative banking groups and total banking sectors, respectively. The credit data refer to all (inter)national credits and loans to the non-financial private sector of ECBGs and all other banks. The deposit data refer to all (inter)national savings and deposits of the non-financial private sector at ECBGs and other banks. Data pertain to ECBGs and all other banks in Austria, Denmark, Finland, France, Germany, Italy, the Netherlands, Portugal, Spain, Switzerland.

## FOOD FOR THOUGHT

From a policy point of view, this think piece stresses the importance to acknowledge the relationship between the specific governance and ownership structure of ECBGs and their stabilizing role in the financial intermediation process. They exhibit a smooth growth pattern and dampen business cycles. ECBGs are still mainly satisfying basic financial needs of their members and customers. They have stayed relatively close to retail banking, meaning that they are careful with the savings of their depositors. These findings have important implications for academics and policy makers alike, since they indicate that ignoring this ownership structure can lead to erroneous banking regulations which may eventually undermine the positive impact of their specific governance on economic development in general. ECBGs should not be subject to a special treatment, but regulators and policy makers should be aware of their specifics when developing and implementing new policies.

Another important issue concerns the funding of ECBGs in order to satisfy future credit demand of members and customers. While these organizations have traditionally relied on retained earnings and member financing, they are now operating in a very different environment, like all other banks. Their reservation capacity has deteriorated, due to lower profits, thus increasing the necessity to tap new sources of funding to remain able to support the real economy in the future.

Finally, it goes without saying that every bank should primarily act in the interest of its clients. However, it is not possible to verify ECBGs' claim that they have always put customer interests' first in a direct way. Only indirect and implicit evidence for this assertion is available. Therefore, we suggest to perform an international survey among many bank customers to measure the level of customer satisfaction, value and advocacy in an objective way.

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# Part III

## Revisiting the future



# COOPERATIVES AND THE STRENGTH OF NETWORKS

PATRIZIO BIANCHI

## CHANGES TO THE RELEVANT CONTEXT

The lengthy transition between the 20th and 21st century has been marked by various elements which are bringing about significant changes to the context in which enterprises operate. Up until the end of the last century, the world economy was based upon three separate circuits, the market economies, the socialist economies and the developing economies. From the end of the 1990s, the globalisation process has generated new opportunities and risks which enterprises must be in a position to recognise, address and convert into conditions which are conducive to growth. First and foremost, it is worthwhile reminding ourselves of the fact that, in a process which leads to the opening up of the economy, such as the globalisation of the economy over the last twenty years, many more actors are called upon to play a role in the economy.

Many enterprises from countries which were considered to be developing countries in the past are now leading companies on the world stage. On the other hand, many enterprises which had played a dominant role in the economy in the past are now either closed or close to going out of business.

Similarly, many areas and cities which flourished in the past are now experiencing long periods of depression, whilst marginal cities are becoming new centres of the world economy. In this new context, collective forms of life are faced with new social complexities and it is this growing complexity which opens up new spaces for the creation of enterprises whose mission is to respond to the new needs of both the people and the community through activities performed by people within the community who wish to be an active and participative part of this process.

There are new forms of poverty even in the most advanced areas, either as a result of the arrival of migrants fleeing war zones, or due to the degradation generated by the long crisis amongst the most fragile populations. Indeed, the environmental context is becoming a factor of social complexity since, in the framework of structural readjustment determined by the global opening up of the economy, there is a risk that the peripheral areas may become even more marginal, leading to them being abandoned and to a state of further environmental degradation and this, in turn, is becoming a further social challenge.

This situation opens up a large space for cooperatives which, in the various relevant contexts, may perform the function of constituting a synthesis between economic, social and environmental requirements which share capital enterprises do not feel they have to perform. A cooperative enterprise, which is essentially an enterprise comprised of people, can become an appropriate response to this phase in which there is a need to acquire a greater understanding of the social and economic transformations which have been revealed by the process of globalisation and the ensuing global crisis. Consequently, it is necessary to promote enterprise-based actions which are able to increase relationships within a society in a process of transformation, in order to create values for the community and, at the same time, to make sure that communities do not fragment in the face of external shocks.

In this phase in which the complexity of the market is increasing and there is a considerable increase in the fluctuations which destabilise the life of the local communities, then in order to stabilise the context of daily life it is essential to rebuild communities which are based on participation, which are attentive to

the rights of individuals, are vigilant in their efforts to protect the territory, capable of making the best possible use of the available technologies and in a position to consolidate the solidarity-based networks which are necessary in order to address the instabilities imposed by the international conditions.

In the most critical situations, both in underdeveloped countries and in areas in developed countries which are lagging behind the rest of the country, cooperatives perform the function of a social catalyst, or in other words a place in which different people are able to come together, with the intention of creating conditions for the production of goods or services which, from a local starting point, may go beyond existing conditions.

This is a vital function to break the vicious circle of “economic backwardness - social stagnation - environmental degradation” which generally feeds into the under-development of the most backwards countries from a historical point of view. However, this vicious circle is now having a violent impact in many cases upon crisis areas in developed countries. Breaking this vicious circle of under-development means creating new enterprises which are capable of responding to new needs in an efficient way, whilst at the same time according a great deal of solidarity and attention to the regeneration of the very same local communities.

The very process of creating a cooperative in these conditions becomes an important moment for the social reconstruction of a fragile community. In many situations which are at risk of a breakdown, the formulation of a proposal to create an enterprise, the identification of a possible production or service activity, the consolidation of a promoting group and the ensuing coming together of the members, become an active

policy designed to tackle under-development which, substantially, is economic, social and environmental in nature and is therefore difficult to address on an individual basis or through enterprises which are isolated and no longer appropriate in these situations.

Furthermore, in this phase the promoting group is likely to encounter forms of opposition, which may prove impossible to overcome if the proposal to create a cooperative is not supported by a wider cooperative movement to which the new co-operators can refer from the very outset. The situations in which under-development occurs are primarily situations marked by major social disparities in which the compulsion to introduce change meets with stern resistance from the most favoured groups and sometimes even from those who occupy intermediary positions, as they seek to protect corporate interests. Furthermore, there is also an education gap which could hold back any initiatives which are not based purely on survival, with the further difficulty of not being able to break out of the narrow local setting.

On the other hand, economic growth in the more advanced situations is leading to the emergence of new social needs and new environmental conditions and if these are not carefully transformed into opportunities for further growth there is the risk that they can quickly become fragile conditions which are likely to place social cohesion or delicate environmental balances at risk.

Here, once again, the development of new enterprises in which the members are directly involved and which are economically aware and socially responsible, becomes a modern and appropriate response to a rapidly evolving society.

The fact that the general public's attention is once again turning to environmental issues constitutes an opportunity to highlight new needs and therefore to generate new opportunities for the creation of enterprises. In this context, consideration for the environment involves an extraordinary range of skills which, once combined with one another, can give rise to the creation of a high value start up enterprise. This is not a question of merely creating new green enterprises in the energy or waste management sectors, rather there is the opportunity to reshape the entire production structure, through an action which may be described as “greening the industry”.

**This means rethinking all of the production functions in an economy and, at the same time, proposing a new vision of the consumption and savings patterns in society.**

Here once again, there are opportunities for enterprises composed of people who come together in order to combine different or complementary skills to offer a new generation of services to people and to the community.



Furthermore, the new century is reshaping the industrial landscape. In the past, the development of a country or of a city was linked to the growth of a self-referencing industry, in other words an industry which had its own purpose in terms of growth and profits and the entire context was required to reorganise and realign itself with regards to the development timeframe and methods, in relation to this particular industry. Moreover, in the last century, the characteristics of industry were such that they did not require creativity, or rather they only required creativity at the outset,

whilst the real barrier to admission to the industry was the size of the plants and facilities. Industry was based on consolidated routines and therefore also upon rules which were fixed and non-negotiable in relation to people's needs.

The automobile industry, for example, certainly required a creative phase with regards to the design of the product and the organisation of production, but then the real barrier to admission to the industry for effective competitors was determined by the size of production, which in

turn was set by rigidly organised production cycles. This meant that small enterprises could only gain marginal entry into the industry and were obliged to act as sub-contractors or suppliers of external services, whilst being bound by rigid constraints. In other words, the admission criteria were based on the requirement to have a production plant capable of producing one million automobiles, together with production-related economies of scale, and this acted as a barrier to the smaller enterprises that wished to get a foothold in the industry.

The competitiveness of new industry (IT, biomedicine, web-based activities) in the new century is related to its capacity to build prototypes in which it can integrate creativity, research and education and which can be reproduced at virtually no cost. For example, in the IT sector, the creation of a software prototype is the barrier to admission to the sector whilst, once it has been created, it can be replicated with one single click. Equally, although a new molecule, which may be used as the basis of a whole family of drugs, may well require huge efforts in terms of research, application and industrial development, the costs of cloning this molecule are relatively low.

This new form of industry requires enterprises to be able to access and benefit from substantial external factors at the territorial level. "External factors" mean that an individual enterprise can access activities at the territorial level which, in order to be carried out internally, require elements which are not compatible with those available in the enterprise itself. These external factors may be provided by schools, universities, laboratories, in other words by institutions which provide training and transmit knowledge. In this sense, vibrant cities which are driven by schools, universities, training centres, service enterprises, centres for cultural activities, theatres and libraries are able to create community dynamics capable of facing up to the crisis and establishing conditions for change.

There is an increase in new needs in the dynamic cities and these require people who are able to work together in changing contexts and in situations which are, in turn, capable of creating dynamic and vibrant relationships. Within this context, a new space opens up for enterprises based on participation, which have a social purpose and are deeply rooted in a given territory, but are

also capable of operating on the global stage by being part of solidarity-based and responsible networks.

The cities once again have a vital role to play in this situation. Since new industry requires a stimulating environment and a dynamic eco-system, there is a need for a vibrant urban context which is capable of generating a creative stimulus. In this way, culture once again becomes the prime driving force behind creativity, since we are currently living in a period of our history characterised by a huge provision of communication tools – I would go so far as to call it a "hyper-inflation" of communication tools and channels – and a scarce supply of contents.

There is therefore a need for new contents which can only be related to people and to forms of solidarity and there is no doubt that cooperative history and traditions can contribute to the shaping of these contents as a priority, by re-launching the idea of a non-capitalistic enterprise which perhaps appeared to be rooted in the past but which, in the present day, is rediscovering its capacity to respond to the needs of a rapidly changing society.

If we accept that, as a result of its complexity, this new phase is opening itself up to new possibilities for the creation of opportunities for cooperative enterprises, then it becomes necessary to ensure that the best possible conditions are put in place so that these opportunities can be transformed into cooperatives which are able to operate and to develop.

The first thing to be done is to strengthen the international network from which the single initiatives may draw support. The cooperative tradition has a long history of creating associations, with enterprises being ideologically motivated to join forces within central cooperatives which were capable of providing services and structured relationships to support new initiatives. Although these regional and national networks are still necessary today, they are no longer sufficient on their own, because there is a need to be present at the global level, even for enterprises which only operate at the local level.

The possibility of strengthening an international network based on expert and competent relationships is becoming essential in order to enable young people to become better acquainted with the possibility of setting up new cooperative enterprises. It is necessary to help them in their efforts to uncover the new social needs and, at the same time, there is a need to train people so that they are able to fully understand the new global realities. There is a need to tease out everyone's inherent and sometimes hidden skills – entrepreneurial skills for example – and make people's explicit skills – technological skills for example – complementary with one another.

A form of training which develops both technical-professional skills and entrepreneurial and managerial skills at the same time requires a great deal of research. It is not enough to extend the consolidated economic and corporate theories taught in faculties of economics or business schools to cooperatives and particularly the new cooperatives striving to respond to the three-fold new economic, social and environmental needs. Not only is it necessary to teach good enterprise management but, in cooperatives more than in any other enterprise situation, there is also a need to teach the capacity to make the most of the skills offered by people taking part in a joint initiative. Today, there is a need to teach people how to develop a transversal understanding of society, in order to become the point of synthesis described above.

There is a need for new enterprises today, particularly enterprises based on people, sharing and participation.

In the current climate, this form of enterprise would appear to be particularly appropriate for people who are highly skilled and have a well developed sense of social responsibility. This therefore opens up the possibility of a major international initiative in order to regenerate networks which are able not only to help consolidate existing cooperative enterprises, but which also offer themselves as positive external factors in order to promote the growth of new cooperative enterprises which are able to respond to society's new needs. Today, the historical tradition of the cooperative movement can become an enterprise incubator for new initiatives aimed at a society which must display greater solidarity in order to be sustainable.



# A COOPERATIVE MOVEMENT RESPONSE TO THE CRISIS OF CIVILISATION: CHOOSING TO SUSTAIN LIFE!

VISHWAS SATGAR

## INTRODUCTION

The development of the ICA 2020 *Blueprint for a Cooperative Decade* comes to the fore at a crucial historical moment. There is a great deal of uncertainty and flux in the world; dogmatic ideas that have held sway for the past three decades are unhinging, complex global challenges loom large and the global political economy is in transition. The Blueprint frames a much-needed integrated strategic vision, which serves as a compass to navigate the difficult world we live in and guide the ship of ethical values and principles defining cooperative identity today. However, even with the guiding role of the Blueprint the journey for cooperatives, over the next few years, requires an awareness of the challenges and practical strategic choices to ensure cooperatives become:

- *the acknowledged leader in economic, social and environmental sustainability*
- *the model preferred by people*
- *the fastest growing form of enterprise*

The crucial challenge is to recognise the cooperative option and its growth is not another version of what exists or something slightly better, but rather it is an *alternative*. Such a perspective is developed in this contribution from the standpoint of critical and green global political economy.

## THE CRISIS OF CAPITALIST CIVILISATION AND THE GROWTH MACHINE

For the past 500 years the world has been remade into a planetary capitalist system. This has been a violent process involving colonialism, genocide, slavery, debt-based control of developing countries and domination of the world by powerful countries. However, over the past three decades and with the demise of the Soviet-controlled Second World, the global economy has been restructured to ensure the vision, values (individualism, markets and greed) and policies (liberalisation, privatisation and financialisation) to bring to the fore a truly planetary capitalist civilisation. This process of restructuring has been referred to as neoliberalisation, which places global finance at the centre of the global economy. Put differently, global finance is now central to the systemic logic of the global economy. This means whole societies, economic sectors and even states, have been remade to manage the risk to finance and the

finance-controlled firm.

This experiment in remaking global capitalism has produced a *crisis-ridden form of neoliberal capitalism and capitalist civilisation*. As high finance prevailed over global accumulation and imposed its speculative rationality, the global capitalist economy has blown out, crashing economies: from the Mexican peso crisis (1994), Asian crisis (1997), Brazil and Russia (1998), Dot com (2000), Argentina (2001), to the 2007-present global crisis.

Financialised over-accumulation marks the crisis tendencies of neoliberal capitalism. However, the present crisis, with its origins in the US housing market crisis beginning in 2007, cannot be merely understood as a crisis of financial accumulation or the 'Great Financial Crisis'. Such an understanding perpetuates the idea that by simply fixing financial markets the crisis can be

overcome. This reduces the crises of capitalism to a singular crisis and fuels a simplistic understanding of capitalism: that is, capitalism has all the answers or it always overcomes crises. Such a perspective fails to appreciate the extent to which neoliberal financialisation is not just about speculation in financial markets, but is a systemic logic driving global accumulation. It is a crisis of financial markets (booms and busts), of sectors in the global economy (from housing to manufacturing), of those cities and countries integrated into this logic, of a project of transnational finance and most importantly a systemic crisis. The latter dimension of the crisis is most serious. The logic of financialisation undermines the conditions necessary to reproduce life on planet earth (human and non-human). This includes the inter-locking of financialised chaos with resource peak (not just oil), climate change, food crises (such as skyrocketing food prices in 2007-2008) and

the securitisation of politics (such that authoritarian and undemocratic state practices are increasingly apparent). High finance does not have solutions to these challenges, except more financialisation (that is, more of the same).

The consequences of the crisis of capitalist civilisation today are dire. While it has created a plutocratic elite (the super rich 1%), it has brought forth a new form of barbarism, leading to our self-annihilation. As a species we are destroying ourselves, other life forms and the conditions that sustain planetary life. This has amounted to the following:

- A tendency towards genocide – as expressed through the structural violence unleashed by an economy that privileges profits for finance controlled firms over lives. Crucial examples are the suicides of over 200 000 Indian farmers in the context of liberalisation, 10 million people who die globally from hunger every year, and many others from lack of access to medication for treatable diseases like HIV/ AIDS, malaria, diarrhoea and tuberculosis. The end of wage earning, through increasing and in some cases permanent unemployment, also imperils human reproduction. Moreover, we condemn future generations to endure structural violence as we undermine other life giving conditions on the planet.
- Overshooting planetary limits – this includes increasing ocean acidification (which is linked to climate change and confirmed by the recently released Fifth assessment report of the International Panel on Climate Change). The proposed boundary is 2.75, but the current level is 2.90. Species loss is proposed at 10 per million but the current

rate is greater than 100 per million. (The International Union for Conservation of Nature suggests rather conservatively that over 17000 plants and animals are at risk of extinction.) The proposed boundary limit for excess nitrogen to avoid ecological degradation is 35 million tons; the current output is 121 million tons.

- Destruction of life giving conditions – By 2025 two thirds of the world's population is likely to face water scarcity. With current climate change trends, including breaking the threshold of 400 parts per million of greenhouse gases in the atmosphere we are moving rapidly to a 2 degree or more temperature increase on the planet. We are heading for climate breakdown according to the Fifth IPCC assessment report. Various tipping point indicators indicate this, including: the melting of the Arctic ice sheet which is releasing immense amounts of methane gas (the deadliest greenhouse gas), increasing sea levels (currently at 3mm per year or an inch per decade), a rapid decrease in mountain glaciers, warming of the oceans (where it estimated that about 90 per cent of heat accumulated on the planet is located), devastating droughts, extreme summer and winter temperatures and negative effects on crop yields as average planetary temperatures rise, and rapid destruction of rain forests which is destroying the 'green lungs' of the planet.

Africa is hardest hit and is the epicentre of the crisis of capitalist civilisation. It is where HIV/ AIDS is ravaging communities, where climate change impacts are expected to be the worst (some analysts suggest Africa will experience the hottest

temperatures and currently Namibia is experiencing the worst drought in its history with over 800 000 people requiring food aid) and where the scramble for minerals, fossil fuels and farming land is all part of a new wave of destructive extractivism and dispossession. For advocates of economic growth this means Africa is experiencing an economic boom, with mainly African petro-states averaging about 5% growth rates.

Central to capitalist civilisation is the role of growth measured in GDP (Gross Domestic Product). GDP measures the value of income (goods and services) less the cost of producing this output (e.g. the raw materials, labour). It is the most powerful measurement tool and number in the world that determines economic policy-making. However, this 'Frankenstein' number, as it has been referred to, was initially invented in the inter-war years to assist the US government understand the impact of economic policies. It was also used in war planning, and after World War II became the most powerful economic policy tool in the capitalist world. In the US context, it also counts military expenditure as part of measuring growth. The growth machine is constantly cranked up and encouraged by policy-makers, politicians and business to keep the juggernaut of production, consumption and investment going. It is a proxy for more wealth creation for an elite. In the midst of the current crisis more growth has been set as a primary policy objective. However, from the standpoint of the crisis of civilisation this means deepening crisis and greater barbarism. More growth means genocide, breaching planetary limits and destroying conditions that sustain life. In short, economic growth does not take into account the real cost to human life and the planet.

The global crisis has, in a sense, enhanced the appeal of cooperatives. The cooperative advantage has been accentuated in global common sense. This is also expressed through the *Blueprint for a Cooperative Decade* which recognises the opportunity to make the cooperative case. However, it is important to recognise that the cooperative movement also faces difficult challenges in the context of a world controlled by high finance. It has been contested by high finance and at times brought into discourses that render cooperatives merely another business form, emptied of their deeper social character. In many parts of the world the global capitalist civilisation has reduced cooperatives to small and medium enterprises, 'social enterprises', another way of making money and as entities functional to the making of 'competition states' that withdraw from directing economic development. This has negative consequences on the space for developing genuine cooperatives, as well as cooperative autonomy and identity.

At the same time, the dramatic economic power of cooperatives in some parts of the world and in some sectors of national economies has also challenged cooperative identity. Many cooperatives have to make difficult decisions to adjust to market pressures, competition and economic restructuring as part of globalisation. This has prompted mergers, complex inter-locks, financial stake holding and generally a consolidation of market power. In this context, while experimenting with new practices where necessary, the

sustainability of internally democratic and member-driven practices have also been lost as cooperatives become globalising 'giants'. In developing countries, the end of state control has posed a challenge of building a tradition and practice of member-driven cooperatives, which brings forth new challenges for responsive cooperative education from below.

Another crucial challenge facing the cooperative movement today has got to do with a narrow understanding of the cooperative form, that is, it is both a social institution and a business. Merely reducing cooperatives to these two dimensions misses the deeper movement character of cooperatives. It fails to recognise that genuine cooperatives are about linking, solidarity and working together. Since the formation of the ICA there has been a strong emphasis on vertically based national movements. Going forward over the next decade requires the ICA to also recognise that cooperative movements have different shapes and forms, in national contexts. In particular, the rise of new social movements over the past three decades— unemployed people's movement, landless people's movements, the Occupy movement, climate justice networks, for example — which also promote cooperative development, prompts the ICA to recognise that the agency for cooperative development in the world has emerged from different social forces. Such movements are potentially crucial allies of the international cooperative movement. A genuine effort has to be made by the ICA to reach out to these movements.

Finally, and flowing from the previous point, is a recognition that even in its origins in the 19th century cooperative philosophy has been divided between two ideological currents: ameliorative and transformative. Over the past few decades, both these currents of cooperation have come to the fore in a context in which the radical utopian imagination renews itself. In the World Social Forum there has been a consistent affirmation of the notion '*Another World Is Possible*'. This rallying slogan with its powerful anticipatory message nourishes a powerful commitment to the transformative impulse of cooperation expressed through the idea of the 'solidarity economy'. Currently, in the ICA, the space for the transformative impulse to drive cooperative development is uncertain. Ideally, the ICA needs to ensure both ameliorative and transformative impulses of cooperative development feed-off, support and democratically challenge each other in order to advance cooperative growth over the next few years. A genuine unity, based on diversity, of the cooperative movement in the 21st century is required to confront the crisis of capitalist civilisation.

The propositions that follow are meant to inform the on-going debate on realising the *Blueprint for a Co-operative Decade*, while affirming the cooperative movement and option as an *alternative*. This means situating the envisaged growth of the cooperative movement in a different paradigm. Some elements of this paradigm are contained in the *Blueprint* and some are not.

**a. *Advancing cooperatives to sustain life***

The irrationality of economic growth cannot drive cooperative growth. As an economic measurement and policy tool it is blind to the real consequences of capitalist civilisation on human life and the planet. Moral and ethical considerations do not feature in the growth machine. It is in this context that the prioritisation of sustainability in the *Blueprint* is welcomed. The role of economic, social and environmental factors in mediating the growth of cooperatives potentially places the cooperative movement in the lead in terms of challenging the world to think differently about how we produce, consume, use finance

and live. It potentially holds the prospect of shifting thinking in the world away from merely thinking in terms of 'economic wealth' but engenders a conversation about a different conception of 'wealth'. That is, the real wealth we have are renewable resources on the planet, life giving conditions and human beings as a creative force. In other words, 'sustainability' as a driver of cooperative growth could open a way to shift focus to protecting the natural and creative human commons; that is, place cooperatives at the centre of sustaining life. It also enables the cooperative movement to join a conversation taking place in

the world about a deep and just transition to a low or zero carbon economy prioritising renewable energy, the role of carbon debt, the rights of nature (or living well discourse), climate jobs and ecological restructuring of societies. These are issues being debated by transnational climate justice movements and networks to find genuine solutions to climate change. The ICA and its member organisations need to also actively engage the international climate justice movement in a conversation about these issues to clarify the place and role of sustainable cooperative development in the just transition.

**b. *Cooperative identity and power***

Generally cooperative identity is defined by its ethical values and principles. When these values and principles are institutionalised this makes for a powerful expression of symbolic power; there is a recognisable difference in the internal relations and practices of a cooperative as compared to other institutions. However, for cooperative growth to accelerate, the global cooperative movement has to become self aware of the other facets of power inherent in the model and which accentuate its identity.

Thus beyond symbolic power, cooperatives also have three other types of power: structural power such that they control parts of a market or an economy; movement power based on the networked links, member densities and collective capacities inside the movement; and direct power which refers to the capacity of the movement to shape public opinion through advocacy, mass campaigning and marketing.

Together these four forms of power (structural, movement, direct and symbolic) are a crucial strategic thrust through which to advance the growth of cooperatives over the next few years. This also means the cooperative movement has to become much more self aware of its capacity to advance a transformative politics from below in society and in the world. It is only through such a conscious politics that the cooperative movement can confront the crisis of civilisation and sustain life.

### c. *Affirming cooperative democracy as transformative democracy*

While the *Blueprint* prioritises an emphasis on participation to drive the growth of cooperatives and strengthen cooperative identity, this particular imperative has to be contextualised to appreciate its wider importance. Essentially, the crisis of civilisation is not just underpinned by the narrowing of democracy and a democratic deficit but there is a conscious attempt to subordinate democracy to markets. In other words, 'market democracy' has become the master narrative of what

is democracy. This means the state must prioritise the interests of markets and corporations over citizens' needs, democratic accountability is narrowed and electoral contestation is certainly not a guarantee of social justice, policy change and transformation. Thus market democracy hollows out democracy and concentrates power amongst a few, or the 1% in society. In this context, the importance of economic democracy in a cooperative cannot be underestimated.

In fact, the democratic skills, capacities, practice and impulse of cooperatives becomes increasingly important to renew democracy from below to ensure it is deepened. The cooperative form, conscious of its different facets of power, can be the harbinger of direct, participatory and a new kind of accountable electoral democracy; a transformative democracy. This is a crucial antidote to a form of democracy – market democracy – that is in its essence anti-democratic.

### d. *Ending hunger for 1 billion – advancing global food sovereignty*

The genocidal consequences of the crisis of capitalist civilisation is reflected in the most tragic number at the heart of this: one billion hungry people. And as some commentators have pointed out there are also an additional two billion who are food insecure. The global political economy of transnational corporate controlled food is a crime against humanity. Moreover, in the context of climate change and breakdown, the hunger question will become increasingly important and has to be addressed now to ensure we sustain life. This means going beyond 'food security' (merely ensuring enough food is produced to feed a society) and the criminality of large food corporations, and ensuring the food system is reclaimed by the hungry. Thus the crucial

challenge facing the cooperative movement is ensuring the right to food of the one billion, and food insecure more generally, is affirmed through securing food *sovereignty*. **The idea of food sovereignty is championed by important and networked peasant and small-scale farmer movements across the world, to ensure food production, distribution and consumption is placed back in the hands of citizens and communities.** This has also been endorsed by UNCTAD in its 2013 report entitled: *Wake Up Before Its Late*. These small scale farmer movements are currently fighting one of the most important battles on the planet to prevent the destruction of small-scale farming by transnational corporations. This is better known as the 'last great dispossession'

and is mainly taking place in the global south. At the same time, many cooperatives are also responsible for food production in the world and also control distribution chains. It is time the international cooperative movement opens up a dialogue between these cooperatives and the movement of small-scale farmers to strengthen a global alliance for food sovereignty. It is time to ensure by 2020 that there is zero hunger on the planet, there is a reduction in carbon emissions from agriculture, farming is grounded in agro-ecological methods and is controlled by communities, cities, towns and villages to ensure adaptation to climate change. This can only happen through championing and realising food sovereignty in the world now.







THE TIME FOR COOPERATIVES HAS COME . . .

As we move further into the 21st century, we are faced with five mega challenges created by the crises-ridden, growth-driven paradigm:

- a. the green challenge
- b. the inclusion challenge
- c. the wellbeing challenge
- d. the moral challenge
- e. the (democratic) governance challenge

which, together, constitute the great “sustainability challenge”

The celebration of the present model of development, with its mantra of “growth” masks the fact that endless economic expansion and living standards is an illusion. Already we have reached the natural limits to growth – social, environment as well as economic. The “phantom wealth” creation driven by the engine of debt and greed, divorced from the real economy is unsustainable. The global economy is already in significant ecological overshoot, and we are no longer living off the earth’s revenue account. We are eating into its capital. We need now to discover ways of reducing humanity’s overall ecological footprint. In the absence of an effective redistribution paradigm, we now live in a “one-fifth society”, with only a fifth of the worlds’ population as winners of this model appropriating an excess of the new wealth to the point of making their affluence “vulgar”, while the others are losers – without employment, and in conditions of poverty and misery. This social polarization creates the problem of security for all. Social researchers have convincingly shown that beyond a certain material living standard, increases in personal and/or national income don’t contribute much to social wellbeing and human happiness. Wealth becomes inversely related to wellbeing, popularly known as “the Easterlin Paradox”. Growth has crossed the “threshold line” and has become counterproductive. Thus the richest nations may be experiencing today what Keynes described as our “permanent problem”. As Arthur Miller wrote, “An era can be said to end when its basic illusions are exhausted”. The central illusion of the age of capital –unending economic growth and material abundance– has come to an end.

The “End of Growth” breeds great opportunities for us to develop a radically different democratic approach to imagining life beyond capitalism. If the era of capitalism produced its own economics based on four value-laden concepts (rationality, efficiency, competition and profit), the post-capitalist society, in its search for “the future we want”, articulates an economy whose DNA is constituted by the three “Cs” – *cooperation*, *community spirit*, and *collective action*. It constructs a radically different way of economic organizing that wins democratic support. If the capitalist economy moved towards *growth* and *globalization*, the post capitalist project changes course and gravitates towards *wellbeing* and *localism*. It changes the equation between capital and labour, makes a sharp distinction between the means and ends, seeks to reduce our ecological footprint, emancipates rather than subjugating people, and moves beyond the *narrow economism* of GDP. After the 20th century experiments with the “Big Market” and the “Big Government” failed to meet social needs, it turns to the “Third Sector”, or *The Social Economy*. The post-capitalist paradigm resonates very strongly with the rising tide of the Cooperative movement in its search for an alternative to the oxymoron of Growth. Thus the time for cooperatives has come, and as the 19th century French intellectual Victor Hugo said, “Nothing is more powerful than an idea whose time has come”.

Historically, the cooperative movement has survived over the last 150 years, albeit as a “second chance economy” within a subordinate space, and has even grown in size, scope and strength in the side-walks of the mainstream capitalist system, and in a financial landscape where the playing field is not leveled – much to their disadvantage to be easily crowded out.

Today, after the air from these two balloons (the “Big Market” and the “Big Government”) is gone, we return to cooperatives with great confidence as *the alternative* to meet social needs. Thus, the “cooperative density” has significantly grown, and today it is estimated that there are three times as many member-owners of cooperatives as there are individual shareholders in

of Italy, the world’s 7th economy (Roelants et.al. 2012, Sanchez Bajo and Roelants 2011).

The largest 300 cooperatives of the world had a combined annual turn-over of \$2 trillion in 2010 (ICA, 2012), but as the ICA recognizes, this is just “the tip of the pyramid” of the cooperative sector. Significantly, the credibility and reputation of the cooperatives as better business models, and as stable and resilient institutions have by now been established beyond doubt. The cooperative mosaic is extremely rich today and it is difficult to draw up a catalogue of the types of cooperatives sprouting up across a limitlessly expanding canvas (from areas like water, health and irrigation to energy and electricity; to ecologically-oriented community services like waste disposal, renewable sources of energy, and so on). This will become even richer as we move past through this International Decade.

## In spite of seriously constraining economic and political environment, cooperatives struggled to evolve, spread and mature.

Today cooperatives have become a firmly rooted institutional reality in the global economic architecture, with considerable significance as a mobilizing tool as well as a counter hegemonic discourse.

Earlier cooperative experiments were dwarfed by the amount of confidence, hope and legitimacy invested by people globally on the two great systems of production and distribution.

investor-owned enterprises worldwide. The combined membership of cooperatives has reached 1 billion, and discounting for multiple memberships a conservative estimate puts it at 650 million, which amounts to 15 % of the world’s adult population. Cooperatives in the 10 biggest world economies make up an average of almost 5% of the GDP of this group of countries which amounts approximately to the GDP

The institutional strength of the cooperatives derives from their distinct character as organizations *blending values* – economic with social and environmental – to create positive outcomes for members’ wellbeing (not just income) and community development through a democratic structure and management. While based on an entrepreneurial approach, they are not motivated to maximize the financial return on investment for investors as a singular focus. They are driven by “other rationalities” beyond profit and competition.

The cooperatives pursue an “arranged marriage” between *capitalism* (income growth, entrepreneurship, enterprise development as players in the products and services market) and *democracy* (participation, inclusion, ownership and control), and change the *intent* and

*content* of our economic life.

Members view their cooperatives, not in the same instrumental way as an employee or a client or an investor views a company, but as an entity that is very much central to their lives – offering them an institutional space as well as a social environment that provides not only cohesion, support, and security, but also gives them confidence, hope and even identity. Thus the cooperative has a very significant *intrinsic value* for its members. Therefore, cooperative members blend *loyalty* with *voice* in the governance of their enterprise, which is another key to their strength and efficiency to be resilient and stable in face of economic crises and downturns compared with enterprises structured around *exit* options – a virtue which became abundantly clear during the recent global crisis.

But, at the same time, the cooperatives are extremely fragile and vulnerable, which vary in degree and kind from country to country. Their fragility comes from a range of internal and external factors, more commonly : legislative uncertainties, undercapitalization, regulatory risks, combining the economic, social and environmental goals into a coherent business plan, poor governance and management systems, entrepreneurial and techno-managerial skills, structural constraints on growth and expansion, poor market access, low participation of women etc. All these lead to a poor image and low esteem in the general perception of cooperatives, and make them highly vulnerable in the face of growing competition with capitalist firms, and have led many of them to bankruptcy, breakdown and into liquidation. Thus cooperatives become very efficient and successful under certain institutional conditions, but under different conditions they degenerate into corrupt organizations and fail.

Smart cooperatives need to address the present weaknesses of the sector, and strengthen the institutional conditions for their health. but at the same time, they need also to develop their capacity to grow as smart organizations in the Knowledge Economy of the 21st century to build their financial and techno-managerial efficiency *as cooperatives* so as to scale up their social and environmental impact *without compromising their identity and values*. Today, cooperatives are deficient, because the cooperative management systems and tools have not been developed to effectively manage and monitor their performance *as blended value organizations* – to effectively track and improve their performance on a *triple bottom line*. In the absence of that, the same standards which have been developed to measure the (financial) efficiency of the capital-centered and profit-maximizing companies are used to (wrongfully) measure their efficiency, which looks at the cooperatives in the same screen as the commercial enterprise and does not inform about their impact in enhancing individual, social and environmental wellbeing. They are trying to navigate the difficult sea without the right compass, or rather compelled to use a “borrowed compass” designed for the single bottom line, profit-only organizations.

As a result, cooperatives are compared very unfavorably with the profit-maximizing investor-owned enterprises on the scale of (financial) efficiency, and the *gross values added* by them are grossly neglected, while cooperatives are made to grapple with problems to unsuccessfully challenge the widespread belief that they are less efficient than investor-owned enterprises.

## THINKING COOPERATIVES MORE BOLDLY . . .

The cooperatives occupy a different space in the whole spectrum of investment objectives in the structured capital market because of the nature of values they create at the intersection of the economic, social and environmental goals. Putting the cooperatives to an efficiency test on a scale appropriate for another distinct set of organizations is a gross distortion of the cooperatives’ institutional reality and identity, which amounts to a comparison of apples with oranges, with the

result that cooperatives are so constrained that they either fail or behave more and more like (only to become poor copies of) commercial firms, in their efforts to appear more efficient in order to survive, running the serious risk of losing their social soul and their *genetic essence*. This has exactly happened with the microfinance institutions in the recent past, where “commercialization” led to a mission-drift through a growing competition to aggressively push badly-designed loan products among the poor women and

then ensuring repayment through predatory practices. As a result, microfinance today suffers a “reputation risk”. Their credibility as institutions with social goals of poverty eradication and women empowerment began to be seriously questioned soon as it became evident that the stories behind the “efficient” MFIs – their rosy balance sheets, impressive growth curbs, and excellent ratings – are dangerously “constructed” to satisfy the “efficiency” standards of commercial finance (Dash, 2012).

SPECTRUM OF INVESTMENT OBJECTIVES				
PURELY SOCIAL/ ENVIRONMENTAL OBJECTIVE		PURELY FINANCIAL OBJECTIVE		
	I	II	III	IV
Investment Objective	Only Social Returns, no financial return	Social Returns with 'below market rate' financial return	Risk-adjusted market rate financial return with some broad social return	Risk-adjusted financial returns only
Bottom-Line	Single Bottom-Line (only social)	Double or triple bottom-line (social+financial, or environmental + financial or environmental + social + financial)	Double or triple bottom-Line (Financial + social / Environmental)	Single bottom-line (only financial)
Institutional Types	Philanthropy Charity / Grants	Cooperatives Social economy Social Enterprise	Corporate Social Responsibility Socially Responsible investment Impact investment Social venture capital	Investor-owned companies Commercial business

Adopted from : Jed Emerson, *The Blended Value Map*, 2003

Cooperatives need to be looked through a social-economic screen, who, essentially by their institutional character, seek to *enhance social returns* even at the cost of possible higher financial return. This approach is consistent with the argument that people want not just an income, but they do value non-material choices for their wellbeing. Further, this is the expression of the behavioural translation at the micro level of the “de-growth” and “voluntary poverty” theories, which focus on downscaling material consumption as answers to the great “sustainability challenge”. The deontological standards of efficiency are qualitatively different from the consequentialist utilitarian standards, while the scale for tracking multiple bottom lines needs to be an integrated multi-dimensional one, in marked contrast to the scale used for single bottom line organizations.

### ... CALLS FOR GREATER COLLABORATION TO BUILD ROBUST PERFORMANCE METRICS ...

The currently used conventional financial accounting system, for example, fails to include the social and environmental variables in the accounting framework which are important in measuring the cooperatives' performance along *the triple bottom line*. Income statements that analyze the return to shareholders may be valid for capitalist and profit-seeking businesses (whose mantra is “profit over people”), but they are not fit for cooperatives because the mission of such organizations is “profits for the people and the planet”. Conventional financial accounting systems are one-sided, and thus rate cooperatives poorly, as the balance sheet is silent on the qualitatively more valuable contribution that they make to enhance peoples' experience of wellbeing, the surrounding community through the non-monetized social and environmental outputs, which are difficult to quantitatively account for, value and translate into financial terms. Cooperatives therefore require a *social accounting* framework consistent with their nature as blended-value organizations, and with their ethical and democratic principles. But, *social accounting* as a system to measure cooperative efficiency in terms of social performance, measuring the social return on investment, and the social and environmental values added by cooperatives remains very imprecise, uncertain and underdeveloped.

Managing cooperatives to ensure their financial health to be able to recycle money to multiply social impact and generate longer-term social and environmental benefits, while at the same time guarding the interests of the members is a very creative and challenging process – navigating creatively through complex organizational choices and trade-offs, members' priorities and needs, managing through democratic dialogues and processes to maximize returns on a delicate balance of economic, social and environmental goals. This becomes extremely difficult when the manger's tool box is empty.

Developing sustainable strategies within the blended value space is an extremely critical area where greater Research and Development leading to innovations for organizational excellence is urgently needed in the cooperative sector, and this calls for greater collaboration and partnership between researchers and practitioners. Cooperatives remain a sector that does not yet invest on institutional innovations in these areas. The ICA and other support agencies need to focus on this to create sustainable and long-term solutions to these challenges in managing and monitoring the cooperatives' growth with quality and impact on members' quality of life, community development, local economies, social and environmental wellbeing. Smart Cooperatives of the 21st century need to take the lead in developing home-grown systems and tools to measure and report on *social performance*, not just as an add-on to the reports on financial performance, but as a key way for delivering social benefits to members and communities and to demonstrate the economic, social and environmental values they create while holding themselves accountable to members and to the internationally accepted cooperative principles. We need "market-makers" who, through intensive practitioner-scholar collaborations, expand the frontiers for smart cooperatives to *do good by doing well*.

## . . . AND A NARRATIVE FOR SMART COOPERATIVES THROUGH NEW THEORETICAL DEVELOPMENTS

It is also very important to recognize the fact that the right set of tool box for effective, results-based organizational management for cooperatives to achieve excellence on a triple bottom line has not yet been developed, only reflects the total monopoly of the paradigm of "single bottom-line, for-profit" capital market, through control of the process of knowledge system reproduced through business management schools, which are ill-equipped to explain models that use different goals, values and motivations, or processes and structures. At the deeper level, therefore, the problem is epistemological, which can be transformed through new theoretical advances. The "poor social imaginary" about the cooperatives have been constructed through the lens of the imperial orthodox economics – the intellectual home and the mentor of neoliberal school that champions growth through greed and self-interest.

But today, at a time when the paradigm championed by it is decomposing from inside, orthodox economics has itself turned dismal and even failed, and has become

a much contested science as many "are worried about the increasing adoption of its suspiciously narrow and distorting worldviews as part of the questionable cultural trend of economization, marketisation, monetization and commodification of our social lives at large" (Mäki, 2005:212). Economics is crude, Coyle claims, too "narrow in its focus, caring only about money; too dry and robotic in its view of the human nature; too reductionist in its methodology" (2007:2). The Nobel economist Amartya Sen laments that the nature of economics "has been substantially impoverished by the distance that has grown between economics and ethics" (1987:7). The worst excess of neoclassical economics is the loss of "the moral minimum" in our social life. *A better economy requires a better economics*.

Neoclassical economic thinking and practice are locked up in an "iron cage", which is the creation of its own epistemological and ontological constructions. At the root of the present economic system is to be found the *homo economicus*. Emphasis on self interest and maximization as prime movers of human action governed

by the logic of competition strip the *homo economicus* – the ontologically cold and hyper rational, calculative, instrumentally driven, utility maximizing, atomistic man with a 'separative' self – off any substantive rationality and social fabric, and constructs a *thin theory of human action*, which all add up to create conditions of dangerous social irresponsibility. With its assumption of the *homo economicus* and the Rational Choice Theory, orthodox economics grossly neglects both the logical possibility and the empirical reality of economic practices based on "other rationalities", "relational capital", for the creation of "social profit", "psychic income", and "ecological wellbeing" through the "cooperative logic". Thus the orthodox economics severely constrains our cognitive abilities to understand and imagine economic alternatives – through which local people rebuild their fractured lives, reassert their identities, regenerate the environment, restore their social and ethical values, and carve out their own space and a more sustainable and better future, in short, put *a moral brake on capitalism* (Dash, 2013).

The deconstruction of the economy entails a much more complex philosophical, political and social exercise, and questioning the thought, the science and the institutions that create this “iron cage” of instrumental rationality. The new theoretical paradigm therefore starts with challenging the core assumptions of the neoclassical orthodox economics and rejecting the *homo economicus* as a crude and inadequate construction with weak explanatory power, and replacing it with a contrastive explanation of the *persona* of the “human agency”. It develops a more realist, non-essentialist social ontology to understand better – through a different lens – that economic systems are run by non-economic motives, that economy is embedded in society, that we don’t live our economic and social lives in two distinct spheres, that the self is not atomistic but social, that everyday economic action is not necessarily the product of conscious calculus and deductive logic but the result of a *practical reason* and the application of *situational logic* (Bourdieu, 1990), and that reciprocity and cooperation, morality and common good are the warp and woof of the *superior ontological status* of human beings.

**The *homo economicus* is an anthropological monster, a sociopath, and as Horton (op.cit. 475) predicts “*homo economicus* will become extinct.”**

The ontological rigidity of the *homo economicus* and its claims to universality has been questioned and falsified by recent advances in knowledge. Social

life is hardly ever fully utilitarian, and human beings are less than perfectly rational. In many situations economic actors are *strong reciprocators* who respond to cooperative behaviour. The substantive conclusions from research in new evolutionary biology are supportive of *homo sociologus* than *homo economicus*. Human beings have strongly ingrained norms about reciprocity and cooperation that override cold and calculated “rationality”.

Humans have culturally evolved an elaborate system of ethics and morality, and a code of individual and collective conduct which enable them to take decisions, not simply for short-term gains, but for long-range benefits as well (Horton, 2011).

This new theoretical framework stimulates the study of economics in every way that orthodox standard economics did not, to rediscover, support and strengthen an economy that restores the social fabric, “deepens roots” instead of “spreading wings”, avoids the “ecological overshoot”, democratizes the economy,

emancipates rather than subjugating people, creates “real wealth” driven by the logic of cooperation. Realizing the promise of cooperatives calls

for such a robust paradigm with an alternative epistemological foundation, built around a superior social ontology, as well as philosophical principles different from logical positivism (*monism*) and individualism (*atomism*) – a paradigm that provides us with a lens *against* the grain of our impoverished social vision and impaired lives, and the *weltanschauung* especially locked up in the belief that “there is no alternative” to global capitalism. In the absence of such

theoretical-conceptual advances with a strong ontological and epistemological foundation, we cannot think of cooperatives more boldly to support their growth nurtured by an ideological climate not threatened by market fundamentalism, and smart cooperatives cannot go very far in engaging in, what Jürgen Habermas famously said, “a discourse without domination” with the bigger picture with confidence and logic and in making a scientific claim for them as *superior* to the so-called “efficient” investor-owned enterprises.

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# CONCLUSIONS AND PROPOSALS





# CONCLUSIONS AND PROPOSALS

BRUNO ROELANTS

## A DIRE BUT FLUCTUATING WORLD PANORAMA

The seven think pieces of this report depict a worrying and rapidly changing world panorama

The financialisation of the economy has led to repeated financial crises over the last 20 years up to the financial meltdown of 2007-2008 (see Satgar). Meanwhile, conventional banking has seen its level of assets, deposits and loans reduced (see Groeneveld). However, the problem is not only about finance: the financialisation of the economy is systemic, with a large impact on many sectors such as housing, agriculture and manufacturing (see Satgar). Financialisation has also accelerated business short-termism and has led to increasing precariousness and commodification of labour, which has impoverished the very value of work (see Laliberté), not to mention the drastic increase in unemployment and in particular youth unemployment, which has become so daunting in some countries that we begin to speak of a “lost generation”.

During the same period, we have been observing growing inequalities in income, social protection and education, with fairer redistribution proposals facing increased resistance not only from the most favoured groups but also from the intermediate ones. Moreover, poverty and exclusion are extending to the parts of the world that had seemed thus far immune (see Bianchi).

Inequality is generating consequences that are utterly unacceptable, such as hundreds of thousands of suicides related to economic causes, millions of deaths from curable diseases, and tens of millions of people who continue to die of hunger in spite of the proven capacity

to feed all men and women of this planet (see Satgar). On the environmental front, the ecological overshoot, the destruction of species and climate change are already above the accepted limits (see Satgar). However, these are not ‘simply’ environmental problems, however dramatic they may be: the environmental situation has a direct and immediate impact on the economy and society because it generates a vicious circle between environmental degradation, social stagnation and economic backwardness (see Bianchi).

This complex but interlinked landscape may have serious political consequences: the reduction in people’s economic, social and environmental choices may reduce their democratic decision-making powers as well, breeding both populist responses and distrust among citizens (see Laliberté). This also has a cost.

At the same time, we observe a big transformation of the industrial landscape, with businesses, business actors and whole cities losing out, while others, many of whom come from the world’s periphery, are gaining ground. For those who are able to take up the emerging opportunities, a new entrepreneurial panorama is rising, with more sectors clustering in the same cities and communities than in the past, with more local interaction between businesses, and with knowledge capital becoming essential, particularly in some innovative sectors such as biomedicine, ICT and green industries (Bianchi).

## A DYING PARADIGM

In the middle of this critical and fluctuating world situation, the old paradigm remains rigidly and doctrinally in place, with GDP-based growth measurement considered to be the main compass of the economy, and competition and utilitarianism considered to be the main engines of growth. This old paradigm remains in spite of its well-recognized shortcomings, its leading to unsustainable trajectories, and its incapacity to provide real long-term solutions (see Laliberté and Sanchez Bajo). Such stagnation in mainstream thinking and policy-making is strongly backed by the disillusion of citizens in the face of past or existing political alternatives (see Laliberté).

In the dramatic world context summarized above, the mainstream growth measurement system, GDP, is becoming totally inappropriate to accurately measure growth, as it is largely disconnected from reality. The justification for GDP being the main measure of growth is becoming both unacceptable and futile: GDP fails to measure a series of key factors impacting directly and massively on the economy such as inequality, environmental and social needs, debt crises in the offing, factor depletion, technological change, the non-market aspects of the economy, wellbeing and exclusion, to name a few (see Sanchez Bajo, Satgar and Dash).

Even more profoundly, the present paradigm of infinite growth of goods and service provision, through unending growth in the utilisation of energy and other inputs, is not only an illusion as has been proven with concrete evidence, but also a vain pursuit, as it has also been shown that wellbeing does not grow beyond a certain threshold of material comfort (see Dash). Worse still, it limits our cognitive ability to imagine economic alternatives, impoverishing the nature of economics, as Amartya Sen put it, and impoverishing our social vision (see Dash) and, ultimately, our own capacity to understand the world and to think about how it should evolve and grow.

## QUEST FOR A NEW PARADIGM

In front of the failure of the old paradigm, the quest for a new one, with a new concept of growth and a new growth measurement system, should depart from a very different set of values such as dignity, solidarity and democracy (Laliberté), the integration of economic, social and environmental concerns (Dash) and the need to decipher the profound global socio-economic change in the making (Bianchi). Central to this new paradigm is the establishment of an environment able to promote democratic, person-oriented and knowledge-oriented enterprises (see Laliberté and Bianchi).

While the old paradigm is still in place, a significant policy and theory shift away from it is in the making, such as the ongoing work by Nobel Laureates Stiglitz and Sen to go beyond GDP, alternative measures such as the GPI (Genuine Progress Indicator) used in the US State of Maryland and the object of a keen interest in a number of countries, while new economic theories based on the idea of cooperation, shared value and community development are beginning to take hold (see Sanchez Bajo, Bianchi and Dash).

## WHERE DOES THE COOPERATIVE BUSINESS MODEL STAND IN ALL THIS?

In the ongoing world situation of flux, cooperatives have often remained at the margins of the mainstream economic system, and, in some cases, they have even lost part of their economic relevance or their identity (see Satgar); more often than not, they have been tolerated though not actively promoted, usually without a very high profile. Nevertheless, the number and variety of cooperatives has been growing steadily in spite of their non-mainstream position, with a strong indication that they respond to growing needs (see Dash). They have indisputably shown their resilience to the crisis, which is based on their own specific characteristics, and in particular their capacity to cooperate among themselves, e.g., in horizontal entrepreneurial groups, as can be seen in the example of European cooperative banking groups (Groeneveld).

Still, cooperatives seem to continue to prevalently define themselves within this existing outdated concept of growth with its outdated measurement system (Sanchez Bajo), resulting in a tendency towards a limited interpretation of the cooperative identity (Satgar), and an “empty toolbox” to build an alternative paradigm (Dash).

As a consequence, cooperatives have thus far not been able to create a tangible space in the fields of policy and regulation, research and education, or public opinion, which would clearly distinguish them from single bottom-line economic organisations, namely conventional business on the one hand, and charities, NGOs and beneficence organisations on the other (Dash). They tend to react defensively against being assimilated to one or the other, failing to affirm their identity as distinct from both of them, even though they may share common characteristics (but no common identity) with them.

Nonetheless, the cooperative movement no longer needs to be on the defensive nor to remain trapped within the old paradigm, as it now finds itself in front of a golden opportunity to avail itself of updated innovative policy and theory (see Sanchez Bajo), to start having a much stronger transformational role (see Satgar), and to tackle the sustainability challenge (with its environmental, wellbeing, inclusion, moral and democratic governance components) in redefining and measuring growth in a multidimensional fashion (see Dash).

Intrinsically, cooperatives are triple bottom-line enterprises, namely enterprises combining economic, social and environmental concerns (see Bianchi and Dash). This can be found in their very worldwide definition and principles which establish their identity and which they all refer to (ICA *Statement on the Cooperative Identity* enshrined in ILO *Recommendation 193/2002 on the Promotion of Cooperatives*, approved by governments, trade unions and employers in a world-wide consensus).

Accordingly, 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"*.<sup>21</sup>

We can deduce the following from this definition and from the cooperative principles that go with it.

**First**, cooperatives possess a fully-fledged entrepreneurial character, with all the economic efficiency parameters which all enterprises need to develop: even though their entrepreneurial dimension is explicitly instrumental ("*through*"), their economic bottom-line thus exists without doubt. The economic bottom-line is further reinforced by the "*jointly owned and democratically controlled*" character of the enterprise, because all members-owners equally share and shoulder the entrepreneurial responsibility.

**Secondly**, as an "*autonomous association of persons*", the cooperative is by definition a stakeholders' economic organisation. Its stakeholders have a **common** objective: meeting their "*common economic, social and cultural needs and aspirations*". Logically, the overwhelming majority of these common needs and aspirations are those that concern a vast majority of citizens: production (agricultural, artisanal etc), consumption (retail), work (industry and service), community services (health, education, housing, water, energy, etc.), financial services (credit, deposits, insurance) etc. These activities are socio-economic (not just economic and not just social), because they are carried out by stakeholders having clear socio-economic roles in their communities (producers, workers, consumers, patients, students, inhabitants, account-holders, credit-seekers etc.) and exerting a democratic type of control over the enterprise, by which they pursue both the economic and social objectives of these activities: we are thus clearly in front of a double bottom-line (economic and social).



21- ILO *Recommendation 193 on the Promotion of Cooperatives*, 2002, Art.2.

**Third,** the cooperative principle of *concern for the community* explicitly refers to the wider community surrounding the cooperative and not just to the cooperative members. Whereas the formulation of this principle is from last century, its interpretation in 21st Century reality necessarily includes a strong social and environmental component, which has already been widely recognized and reaffirmed in international cooperative meetings over the last few years, thus providing cooperatives with a clear triple bottom-line (economic, social and environmental). Certainly, the cooperative movement could and should do more to articulate proactive proposals in the environment field, and better position cooperatives right at the centre of “sustaining life” (see Satgar).

In addition, the stated concern of cooperatives for their surrounding community establishes solidarity links with the latter, which enhances social transformation, with a consequent deepening of the triple bottom-line.

**Fourth,** through the cooperative principle of *cooperation among cooperatives*, this triple bottom-line can attain the necessary scales to act within a much vaster reach than the one of a single enterprise, through horizontal interaction, like in the example of European cooperative banking groups (see Groeneveld) or what Zhang calls for in order to adequately develop

the hundreds of thousands of new-generation Chinese agricultural cooperatives. Such scales can provide the cooperative movement and the human communities which it gathers a far more effective transformational capacity, always based on democratic control (see Bianchi, Satgar and Dash).

**Fifth,** through the cooperative principle of *members’ economic participation*, the participation of all members in the share capital, the equitable redistribution of surplus, the practice of common reserves and investment in the common activity, and the funding of other common or community activities are a financial translation of the cooperative triple bottom-line mission, ensuring that such mission is faithfully reflected in financial management and transactions.

**Last** but not least, the cooperative principle of *education, training and information* is particularly relevant in the 21st Century, in which the knowledge economy is becoming increasingly significant. Combined with the principle of *concern for the community*, it provides cooperatives with a strong potential to make the knowledge economy flourish in the communities in which they are embedded, with a concrete impact on the three components of the triple bottom-line.

All the above foundational characteristics of cooperatives necessarily require a different analytical grid to define the latter’s growth from the one conventionally applied to business in general. Failure to do so would mean trailing behind the cooperative identity and mission. Defining whether cooperatives will indeed become the “*fastest growing*” part of the economy at the end of the present decade can only be measured against their own stated mission and characteristics, a measurement that cannot be reduced to criteria related to only one single bottom-line (purely financial or economic).

On this basis, the cooperative movement needs to develop and endorse a multifaceted set of criteria with variations according to different sectors and typologies of cooperatives, consolidated at local-community, national and international levels, with particular emphasis in the field of social accounting (see Laliberté, Dash), in which some initial work has already been done in some countries such as France and Italy. This work should be done both from an endogenous growth perspective and by critically studying and contributing to new growth grids, eg., the GPI of Maryland.

Tentatively, **the list of growth criteria could include**, *inter alia*, the following:

- Economic efficiency geared to the generation of general wealth (not only financial gains).
- Assets, savings, investment in the mission and leverage (equity/liability ratio).
- Innovation and diversification of goods and services.
- Market share (as opposed to absolute numbers).
- The resilience of the business and the community surrounding it.
- The variation in the ratio of members-co-owners of cooperatives to the total population.
- Employment creation, duration and quality (mobility, self-realisation, participation, identity).
- Equality, wage differential, ratio between wage and profit, and redistribution of profit to members, gender awareness and response to gender inequality.
- The democratic control and participation of concerned stakeholders (horizontal control with more equal access to information flows), the participation of members and workers in enterprise decision-making, the inclusion of the various stakeholders involved in the democratic process, the impact of democratic governance on enterprise efficiency and on defining new or modified needs or aspirations of local communities.
- The capacity to create, develop and retain knowledge and human capital in both the enterprise and in the surrounding community, and to provide effective information tools and channels (shared innovation).
- The impact on the social protection of stakeholders: health, education, housing, pensions, response to childrens' and old-age citizens' needs.
- The duration, quality, geographical coverage and capillarity of services provided (in particular financial, retail and community services such as health, education, housing, social services, work integration etc.).
- The capacity to remain autonomous from government and other entities (while enhancing long term responses to local needs and aspirations).
- The capacity to develop an integrated socio-economic system that goes beyond the individual enterprise, at local, national, regional and world level (think local and act global).
- The clustering effect and the capacity to positively impact economically, socially and environmentally on the surrounding community (embedded long term horizon), and to ensure neighbourhood renewal; the impact of cooperatives' triple-bottom-line on surrounding single bottom line economic entities (conventional business and charities/NGOs).
- Value chains, including solidarity chains to promote development and inclusion, fair trade, etc.
- Environmental efficiency and ecological footprint (on the physical surrounding environment and on human beings, eg., positive impact of organic agriculture on both soil and human health).
- The rate of transformation from informal (and sometimes Mafioso/criminal) sector to formal and fair economy (eg., household workers, immigrants).

Although some of these criteria are more economic or more social or more environmental, they blend with each other and reinforce each other (see Dash).

Thus their combination can provide the basis not only to build a growth measurement system, but also to build sustainable growth strategies.

When the list of criteria is properly defined and agreed upon, the cooperative movement could propose a series of indicators to test them in a few selected communities (eg., regions with both a high density of cooperatives and innovative government policies on growth).

## INTERACTING WITH STAKEHOLDERS AND GOVERNMENTS FOR A NEW THINKING ON GROWTH

After redefining growth, as the object of a preliminary internal consensus, the cooperative movement should launch a vast consultation and advocacy endeavour with governments as well as with regional-integration and international organisations. This advocacy work for a new vision of shared growth should be done in strategic partnership with other socio-economic forces, such as the trade unions (Laliberté) and newly emerging global social movements (small producers, women, environmental movements etc.) (Satgar).

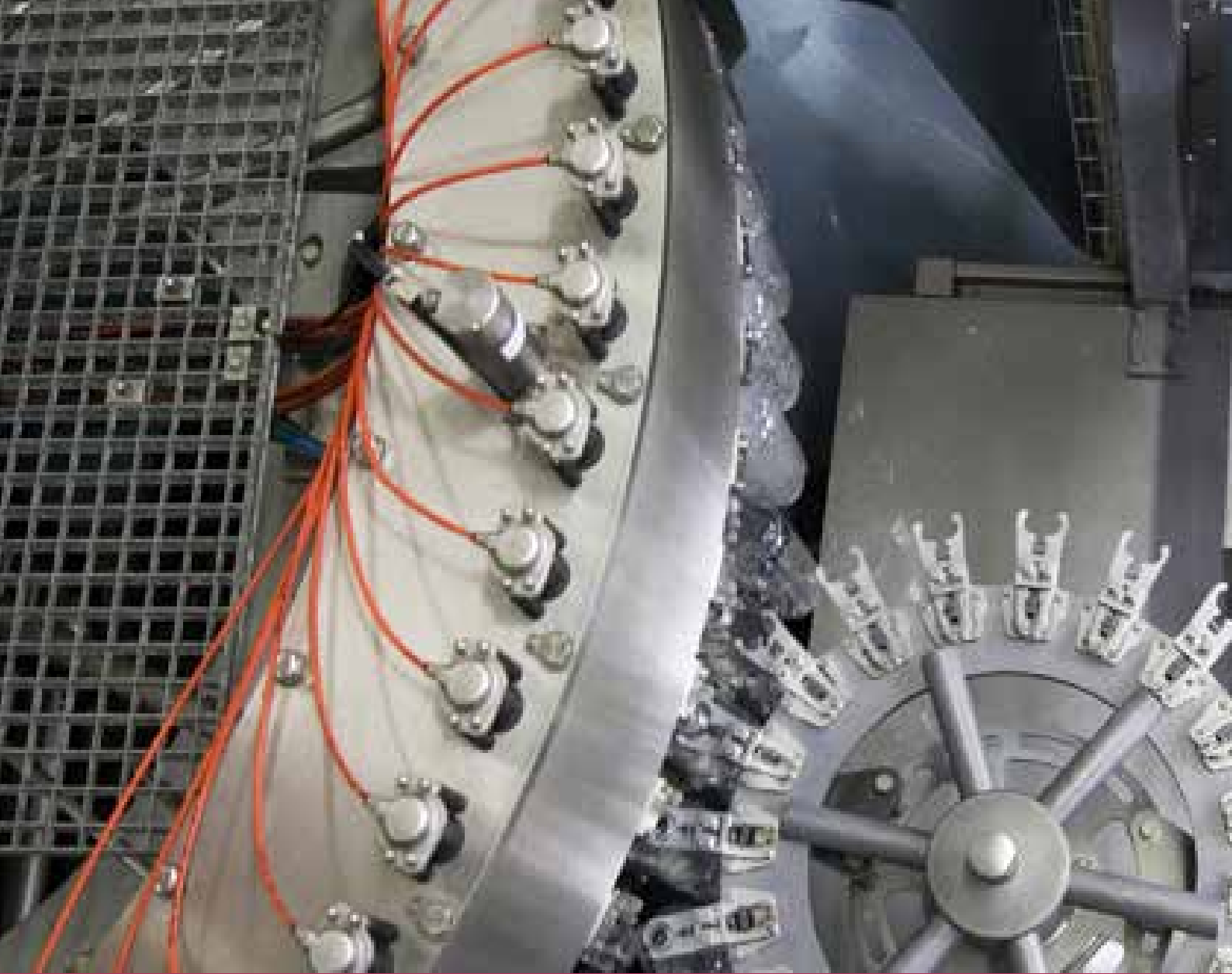
Simultaneously, the cooperative movement could promote spaces linking up academics and practitioners to discuss cooperatives' contributions to a new paradigm, no longer based on old theory (see Dash and Sanchez Bajo). This kind of space is generally filled in by think tanks. Cooperative think tanks and

research to reformulate growth criteria should include, *inter alia*, growth measurement with all externalities accounted for (see Sanchez Bajo), an analysis conducted on members' satisfaction in cooperative banks (see Groeneveld), the relationship between supply-demand management and the establishment and reinforcement of cooperative systems (see Zhang), and the conditions to launch a broad international development initiative linking cooperatives with their local communities for more cooperative start-ups (see Bianchi). This work should not be seen as pure academic research, but a strong basis for a better definition and measurement of growth, and, thus, improved growth and development strategies, as well as an improved negotiating capacity with governments and international organisations on growth-related public policies. It should thus be seen as an investment rather than a cost.

While conventional enterprises are doing their very best to prove that they generate shared value and act as benefit corporations (B corporations), and while non-profits are trying hard to become business-like, the cooperative movement, instead of measuring the growth of its enterprises by calculating its share of GDP now and at the end of the decade like conventional business would have done, should become the leader in re-defining growth, namely growth that espouses the definition of what cooperatives are and what their mission now is: to be the leading enterprises that grow in order to generate, provide and share what human communities crucially need in the 21st century.

Our work must embody innovation in both theory and practice, embracing the concept of sustainable development in all its economic, social and environmental dimensions, beyond quantitative growth. In this respect, the triple-bottom line analysis offers a great historical opportunity to the cooperative movement.

Let us make it possible now.



## PHOTOS

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Muszynianka, Poland by @Lydie Nesvadba

CICOPA represents 80.000 of industrial and service cooperatives providing 3 million jobs across the world. Its full members are representative organisations of producers' cooperatives from different sectors: construction, industrial production, services of general interest, transport, intellectual services, artisanal activities, health, social care, etc. Many of those cooperatives are worker cooperatives, namely cooperatives where the members are the staff of the enterprise, i.e., worker-members. Because of this, those enterprises are characterized by a distinctive type of labour relations, called "worker ownership", different from the one experienced by conventional employees or by self-employed. With the recent transformation of the world economy, industrial, artisan and service cooperatives are no longer a marginal phenomenon. A new and growing typology of cooperatives represented by CICOPA are social cooperatives, namely cooperatives whose mission is the delivery of goods or services of general interest. Numbers have increased in both industrialised and developing countries over recent years. CICOPA currently has a total of 46 members in 31 countries, four of which are development organisations. CICOPA has two regional organisations: CECOP- CICOPA Europe and CICOPA Americas



## THE INTERNATIONAL CO-OPERATIVE ALLIANCE

The International Co-operative Alliance is a non-profit international association established in 1895 to advance the cooperative model. Its members are national level federations of cooperatives and individual cooperative organisations, primarily operating at a national level. ICA's members, representing cooperatives in 100 countries, have established seven principles that define the essence of cooperative organisations. One of ICA's primary responsibilities is to advance, interpret, and maintain the relevance of these principles. To accomplish its purposes, ICA is organised with a Global Office, four Regional Offices (Europe, Africa, Americas, and Asia-Pacific), and eight Sectoral Organisations (Agriculture, Fisheries, Industry and Services, Banking, Insurance, Health, Housing, and Consumers' Cooperatives).