

Co-operatives and Workers in the Informal Economy: Possibilities and Challenges

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Abstract:

This paper seeks to overturn these misconceptions by illustrating that co-operatives formed on the basis of self-help can and do assist their members by bringing more benefits to the worker than if the worker remained a sole operator. Co-operatives can also help promote a wider model of socially inclusive development. As a collective representation of often very poor people, co-operatives play wide-reaching roles in the lives of informal workers. Co-operatives can provide income and enhance livelihoods, help workers gain control of and improve their employment conditions, and enhance workers' access to resources, facilities, public institutions, and markets. They can also ensure the inclusion of poor women, empower members to channel concerns in policy circles and influence decisions affecting them, and build strong and sustainable organizations at both local and national levels (Motala 2002).

Key-word:- co-operative, inclusive development, poor people, livelihoods, resources, public institution, wome empower, Informal Economy.

Introduction:

The fact that co-operatives can address all these aspects makes them unique. Many of these benefits also characterize other organizational forms seeking to mobilize and help workers in the informal economy – the key difference is that a co-operative is an enterprise. It is through engaging with the market that members organize. It is possible, and it has happened, that workers create another organization first, and then set up a co-operative. In a co-operative, members can be both owners and workers. This enterprise model is as deeply rooted and has as long a history as the investor-owned enterprise model, but it has been relatively little scrutinized in comparison. The paper, seeking to address this gap, begins from the premise that co-operatives are important, if little understood actors in the informal economy.

It aims therefore to map their presence, provide a better understanding of the wider co-operative movement, and explore some of the ways in which co-operatives benefit workers in the informal economy. The paper is based on a literature search, desk research of relevant websites and interviews with key stakeholders.

Overview of the Global Co-operative Movement:

Statistical Shortcomings Up-to-date, accurate information about co-operatives is hampered by the absence of large-scale and comparable data sets for co-operatives. To counter this in recent years, the movement has begun to generate some data on the scale and reach of the co-operative economy, i.e. the top 300 global cooperatives. The challenge now is to ensure data for co-operatives are collected and analyzed by national statistical offices (World Co-operative Monitor 2012). To this end, the International Labour Organization (ILO) is the UN lead agency for co-operatives, and its Department of Statistics provides a comprehensive range of Labour Statistics.

While the Department stopped collecting data on co-operatives in 1988, fortunately it is now preparing a methodology paper with a series of pilot co-operative statistical studies that will be undertaken in a number of countries, starting with Egypt (ILO 2013). In addition, as a recent ILO paper pointed out, there are problems with the definition of co-operatives under the International Classification of Status in Employment (ICSE-93), which is the international statistical norm. Currently, “members of a producer cooperative” constitute one of the five standard statuses in employment together with employer, employee, own account operator, and unpaid contributing family worker. However, in practice, the category of “member of producers’ co-operatives” has only a very limited remit.

It is commonly understood to refer to workers who work in a co-operative, but in reality it actually only covers those “workers who work in a producers’ co-operative of which they are also members, for example, farmers in collective farms” and, as a result, the number of producers’ co-operatives collected by national statistical officers is misleadingly low (ILO 2013). In other words, this definition excludes members of producer co-operatives as it does not include, for example, self-employed workers who own a farm/smallholding and who are members of a co-operative providing services to them such as agricultural marketing or processing.

As most of these workers do not have formal paid employment in the co-operative despite the fact that they may derive all or a large part of their income from the co-operative, they appear in the statistics as employers or own account workers. The ILO has also noted other problems with the statistics on co-operatives. Although many countries produce statistics on co-operatives, currently these statistics tend to cover only a subset of co-operatives in the countries, often only in certain industries. These limitations derive from the way the statistics are obtained, which is primarily from official registrations.

These registrations have a number of serious limitations such as their partial coverage and lack of reliability. They also do not capture enterprises registered as co-operatives that do not function as such. Nor do they tackle the issue of double counting where a person may be a member of more than one co-operative (ILO 2013).

Defining Co-operatives :

Given the above shortcomings in the academic and statistical work on co-operatives, a definition of co-operatives is needed. The “Statement of Co-operative Identity” adopted in 1995 by the International Co-operative Alliance (ICA), which is the largest organization of co-operatives, is regarded as the definitive view and is increasingly used in national legislation. The Statement defines a co-operative as “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

As well as meeting their members’ needs, the majority of co-operatives share a set of common values that have also been agreed by the International Co-operative Alliance (ICA). These values are self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of the founders of the cooperative movement,³ co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others. These values are expressed in a set of principles through which all co-operatives should aim to put the values into practice:

- open and voluntary membership;
- democratic member control – one member, one vote (regardless of shares held);
- member economic participation – members contribute equitably to capital and receive limited compensation on this capital;
- autonomy and independence (from governments or other external agencies);
- provision of education, training and information to members and others; co-operation among co-operatives; and
- concern for community – they work for the sustainable development of their communities.

Co-operatives have formal structures with bylaws and a constitution (even for the smallest), and they are set up to trade, have a legal identity, and to have the capacity to enter into legal contracts. There are undoubtedly a large number of groups in many developing countries who may be considered to be at a pre-co-operative stage or informally operating as co-operatives. As we shall see below, in some countries, co-operative law is so restrictive that groups who wish to set up co-operatives are discouraged to do so. However, sometimes the parameters of what is considered to be a co-operative are set so wide as to cover any group that collaborates together or informally trades. There are popular misconceptions that any group that “co-operates” together is a co-operative, but legally and statistically these groups cannot be counted as co-operatives.

Co-operative Governance :

That co-operative values and principles are embodied within co-operative governance specifically differentiates co-operatives even from other types of social economy organizations, including social enterprises that also have social aims. In many co-operatives, all members have the right to attend the General Assembly of Members held annually, which then elects the Board of Directors from amongst the membership. Each member has one vote regardless of the size of individual investment in the co-operative. The position of a Director is normally held in a voluntary capacity without salary though with payment of expenses.

In some cooperatives, board members receive allowances for their time, but in other co-operatives, board roles are completely voluntary. The board has a role in determining the overall strategy of the co-operative, and board members in smaller co-operatives may well have a more hands-on role in the day-to-day management of the business. The paid management reports to the board. The board can determine the prices to be paid for members' products, when and where to sell them, the amount of dividend to be paid to members each year (sometimes called the patronage refund), how much to spend on education and training, and how much money to hold in reserves, etc. Many co-operatives, but not all, reward economic participation by a payment to members based on the amount of trading with the society (sometimes called a dividend or patronage refund) rather than the amount of capital invested.

This, of course, is dependent on the achievement of a profit or surplus in trading. Membership shares are not transferable and cannot be traded, so the ownership always remains with the local members. The value of shares always remains the same.

Primary and Secondary Co-operatives In most developing countries, the most common co-operative is called a primary society, which operates at the village or local community level from which its membership is drawn. Primary societies can join together to set up a secondary level co-operative, usually called a co-operative union or area co-operative enterprise, which then provides consolidated marketing, transport, and/or financial services to its members. In these instances, the members of the secondary co-operative are the primary co-operatives.

The basic principles remains constant: one member one vote; fixed share capital; and a share of profits based on the quantity of trade the primary co-operative has with the secondary co-operative. Machakos Co-operative Union in Kenya is one such example, bringing together 79 primary societies with over 60,000 members. The union supports its member co-operatives to produce a range of agricultural products and handicrafts. Some unions, on the other hand, focus on a single commodity such as coffee.

This is the case with the Mzuzu Coffee Planters Co-operative Union based in northern Malawi, which has 6 primary societies as members, which themselves have 2,900 members. Secondary co-operatives can also come together to form a third tier – often combining into a national federation that can represent a single sector or bringing together co-operatives from different sectors.

The global co-operative movement has long had its own internal federations and networks at the national and international level. These can vary from trade-based business associations to representative structures similar to those found within the trade union movement. Globally, the International Co-operative Alliance (ICA) is the largest

co-operative apex body with four regional offices in Latin America, Europe, Asia and Africa. It has 276 affiliates from 98 countries.

Co-operative Membership Co-operatives take many different forms in different countries; even within a country there can be high levels of heterogeneity between different co-operatives. Most co-operatives typically draw their membership base from a relatively homogeneous group of people who share a particular activity such as farming and waste picking or who live in a specific area. Currently, some new types of service provider co-operatives are developing, which draw on a wider membership base such as multi-stakeholder co-operatives or those targeted to a youth membership (Lund 2012; Hartley 2011). Like other types of co-operatives, service provider co-operatives carry out trading activities but with a more heterogeneous membership.

Multi-stakeholder co-operatives are potentially of relevance for informal workers as these have a more heterogeneous membership, which can include a range of different stakeholders. One example is Cooperativas sin Fronteras, which brings together 18 cooperatives and producer associations from 11 countries to promote co-operative development and market its members' products internationally. Cooperativas sin Fronteras' products include honey, coffee, fruit juice, cocoa and sugar. 5 Members are based in Latin America, Europe and North America.

Main Types of Co-operatives in the Developing World:

Co-operatives operate in a range of economic sectors. Some of main types relevant for the informal economy are listed below, but it is important to note the co-operative models outlined are used across the whole of the economy – both formal and informal. They are not bound to a specific sector. There is no such thing as a form of co-operative specific to the informal economy – the values base and legal frameworks remain the same. Indeed, as Birchall points out, the concept of the informal economy has not been much used within the co-operative movement. He attributes this to the fact that “the boundaries between formal and informal are not as important to organizations that are used to dealing in the market economy as a whole” (Birchall 2001).

Agricultural or farmer co-operatives (often included in the category of producer organizations) provide services for their members, who are farmers working their own plots of land. They also include fisheries co-operatives. These co-operatives can focus on a single crop or several. Services offered include the provision of farm inputs such as seeds and fertilizers, extension and training services, marketing, including processing, consumer services such as local shops, credit, and sharing of farm machinery. Farmer members may use only their own and family labour to farm or some may hire seasonal casual workers. Financial co-operatives can be banks, insurance companies, or credit unions. They offer savings and credit facilities and insurance services plus a range of other financial services, including credit cards. They service members as both producers and consumers. They can range from large multi-million dollar enterprises to small village level credit unions.

Housing co-operatives are those in which members are both owners and tenants of their building. Utility co-operatives can be found in both Asia and America. They provide electricity or water supplies to their members often where public supplies are lacking and commercial providers absent. Handicraft co-operatives offer a range of services to their members including product development, supply of raw materials and marketing. Health care co-operatives provide medical services for their members or can provide self-employment for health care professionals such as doctors or nurses. Waste picker co-operatives assist their members by selling waste products, assisting with health and safety issues, etc. Schools, youth and childcare co-operatives include student run co-operatives as well as those cooperatives providing nursery care for young children.

Building a Co-operative Typology:

There is no single and universally agreed typology of co-operatives, and several approaches have been adopted to make sense of a complex and global movement. There are, of course, enormous variations in the ways co-operatives function on a day-to-day basis. Some operate with completely flat management and pay systems; others

utilize more conventional (and hierarchical) management systems for staff. Typically, the larger the co-operative, the more complex is its management structure.

Worker Co-operatives:

In essence, a worker co-operative is set up with a primary aim to provide formal and decent employment for its members. This could be a route for formalizing employment for many informal economy workers.

A Legacy of Government Control :

In many countries, co-operatives have a damaged reputation. In large part, this derives from a legacy of long periods of government control. For many years, in a large number of countries in the developing world, governments and development agencies promoted co-operatives that were not member owned and controlled and that were subject to direct state interference.

State control was reflected in a disabling policy and legal environment. Co-operatives were used as vehicles for political influence or as vehicles to deliver donor funded programmes for poverty alleviation. Under these regimes, many co-operatives were essentially para-statal institutions and not market-based. Co-operatives were restricted as to where they could operate, membership was made compulsory, and there could be direct intervention in the management of the co-operative.

Co-operatives and the Solidarity Economy:

Interest in alternative economic models has accelerated in the wake of the 2008 financial crisis. As a result, growing academic literature has variously conceptualized the third sector, social enterprise, and the social and solidarity economy. Co-operatives are seen as important actors in all of these approaches, especially given their resilience in the wake of the financial crisis.

The ILO and Co-operatives:

The ILO has been concerned with co-operatives since its establishment in 1919. From the onset, the ILO recognized the importance of co-operatives in fulfilling its mandate, and in 1920 it established a specialized unit focusing on co-operatives, the Co-operative Branch. Article 12 of the ILO constitution referred to consultation with the international organizations of co-operators, and since then, the International Cooperative Alliance has had general consultative status with the ILO. Today, the ILO continues to be the only specialized agency of the United Nations with an explicit mandate on co-operatives.

Co-operatives: Policy and Law:

The development of an enabling legal and policy environment for co-operatives is a major challenge in many countries. A High Level panel held on the International Day of Co-operatives (8 July 2013) at UN Headquarters in New York agreed that “law and regulation was another major challenge as negatively affecting the growth and development of cooperatives. Governments should encourage policies to support and strengthen cooperatives so they can contribute fully to inclusive and sustainable development.

The Food and Agricultural Organization (FAO) has also begun to stress the importance of co-operatives. On World Food Day in October 2012, the FAO’s message was that co-operatives “are key to feeding the world” (FAO 2012). A Memorandum of Understanding between the FAO and the ICA has been agreed on and is expected to be signed off in 2013 with the aim of fostering closer collaboration on co-operative development.

India:

In India, the share of workers in the informal economy is much greater than in other emerging market economies at 93 per cent of all workers in comparison to 55 per cent in Brazil. The shift in India from agricultural to non-agricultural work in the services and manufacturing sector has not been accompanied by a formalization of employment there. The informal form of employment remains the predominant form in the manufacturing sector (60 per cent) and non-manufacturing sector (80 per cent) (De Faria and Cunha 2009).

It is also the case that while co-operatives are deeply embedded in the economy and society, a legacy of government control has resulted in a mainstream sector with a lot of inherited problems – impaired governance and politicization of boards and lack of professional management, which is compounded by the lack of ownership by member stakeholders. Co-operatives have been used by both colonial and post-colonial governments as instruments for the delivery of development interventions, such as fair price distribution, procurement operations, and price support operations, etc.

The basic building block of the co-operative system has been the Primary Agricultural Credit Society (PAC), which provides loans and other services. As a result of government policy, PACs have developed as single window institutions providing integrated services such as inputs, storage and warehousing facilities, and consumer retailing, etc. Frequently, membership is limited to that of households, which has had the effect of severely curtailing women's participation as co-op membership is through the male head.

Brazil:

As is the case in South Asia, co-operatives in Brazil have a long history. The dying away of overt state control from the 1980s on has opened up a space for the development of a diverse and multi-faceted cooperative movement. The past two decades have seen the emergence of new co-operatives organizing marginalized and informal economy workers. Today, new and older forms of co-operatives often co-exist in both rural and urban areas. In Brazil, the history of co-operatives stretches back to the 19th century, when European settlers introduced them. In the 20th century, under the military dictatorship, a new co-operative law was put in place that incorporated a high degree of state control.

New co-operatives had to be licensed by a government agency, and all co-operatives had to belong to a single national federation Organizicao das Cooperativas Brasileiras (OCB). At the same time, the setting up of large co-operatives was incentivized. The members of OCB still tend to be the larger and more formalized co-operatives across a number of sectors, with over 7,000 co-operative societies comprised of over 8 million members. OCB co-operatives are particularly strong in the south of the country and in medicine, finance and agriculture – today, 37 per cent of the agricultural GDP is produced by co-operatives.

Challenges for Co-operative Development:

It is no accident that education and training is a key co-operative principle since building and sustaining a successful co-operative is a demanding process - whether it operates in the formal or informal economy. The barriers and challenges are many though it is beyond the scope of this paper to do more than highlight some of the key issues.

Start-up:

The practical difficulty is that setting up a new co-operative for informal workers frequently absorbs huge amounts of time and money to the exclusion of much else. Running a co-operative as a viable enterprise requires skills and knowledge from its members, particularly those elected to the Board. Building sufficient individual and organizational capacity is a lengthy and time-consuming process, which often needs external support.

Ensuring Good Governance:

There is a great emphasis in the co-operative literature and in the movement on the importance of good governance and of ensuring that members/directors have the capacity to effectively run their cooperatives: “boards are a decisive success factor in cooperatives when they function as a team, have an entrepreneurial spirit and promote new initiatives, assume and control risks, know how to overcome difficulties and setbacks, and always consider the members as the *raison d’etre* of the cooperative endeavours”.

Legal Barriers:

In many countries, the legal framework places undue burdens on co-operatives in terms of start-up and reporting requirements. This can be especially problematic for co-operatives whose members have low levels of literacy and numeracy. In some cases, co-operatives have had to register under alternate legal forms because of restrictive legal conditions.

Finance:

The financial needs of co-operatives also pose challenges. Members of small rural co-operatives are often tempted to side sell their crops and products to middlemen because of their need for immediate cash and inability to wait for the co-operative marketing to happen. To combat this, some co-operatives provide micro-credit for their members while others work in partnership with local credit unions.

Membership:

As member-based organizations, co-operatives and trade unions both need a committed and wellinformed membership at their heart. Effective strategies to enhance member participation are critical.

Conclusions:

As the preceding examples have illustrated, co-operatives are present in both the informal and formal economy. Clearly, much is happening in the co-operative movement globally, and the co-operative movement is thriving, but it remains difficult to draw absolute conclusions on the current role of cooperatives and the informal economy. Nonetheless, it is clear that as member-owned economic enterprises, co-operatives can and do benefit informal workers in a number of ways. Globally, they offer one of the most important ways through which own account workers can improve their livelihoods. Co-operatives provide cost effective and accountable services for their members and wider communities through common services such as the joint marketing of goods.

Co-operatives organize millions of workers in the informal economy by providing decent work and decent livelihoods. In some cases, they provide income and social benefits especially for poor women. Given the multiple domestic, social and economic responsibilities of poor women, the capacity of co-operatives to address the multiple needs of workers, including anything from access to credit to the provision of childcare services to building toilets, especially for women, makes them of critical importance. As the informal economy gains recognition for its importance (in size, permanency and discursive space on employment issues), so will the importance of co-operatives from both an economic and social viewpoint grow. As co-operatives move up the development agenda, there is a danger that because of lack of understanding by different players like NGOs and development agencies, these players will make unhelpful interventions at the policy and implementation level. Developing an ongoing dialogue to avoid these possibilities is critical.

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