



COOPERATIVES ARE KEY TO THE TRANSITION FROM THE INFORMAL TO THE FORMAL ECONOMY

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INTRODUCTION

In 2002, the ILO approved a specific instrument for cooperatives, the *Promotion of Cooperatives Recommendation* n°193 (2002),¹ which, *inter alia*, states that cooperatives have an important role to play in the transition from the informal to the formal economy.²

On the other hand, cooperatives are a main component of the social and solidarity economy, which has become an integral part of the UN agenda through the establishment in 2013 of the *UN Inter-Agency Task Force on Social and Solidarity Economy*, bringing together UN agencies including the ILO, other international organizations such as the OECD, as well as representative organizations including the International Cooperative Alliance.³

The present document explains why and how cooperatives and other enterprises from the social and solidarity economy are one of the main forces today in the transition from the informal to the formal economy. Cooperatives are entrepreneurial instruments open to all people, providing

the latter with the skills and the necessary economies of scale that allow them to ensure this gradual transition. This applies in particular to vulnerable groups such as women, ethnic minorities, long-term unemployed, the disabled, immigrants etc. Cooperatives offer to their members and their workers the highest level of formality given the national environment in which they operate and their level of development.



This key feature of the cooperative business model runs counter to the ongoing global trend towards more insecure jobs and shorter term contracts highlighted in the ILO's *World Employment and Social Outlook –* indicates that three fourths of the world's jobs are short term ones, and that the situation has worsened with the 2007/2008 financial crisis, without any clear sign of improvement for the future. This trend does not favour the transition towards the formal economy; indeed, the report also states that *"the rise in informal employment, undeclared and temporary work arrangements, as well as involuntary part-time work, has contributed to the widening of income inequalities, which have been recorded in the majority of countries over the past two decades"*.⁴

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In the first section of the present document, some of the main cooperative figures are reviewed, so as to have an idea of their global social and economic importance. The second section attempts to shed light on the reasons why the cooperative entrepreneurial model and the wider social and solidarity economy offer a dynamics of transition towards the formal economy. The third section probes into historically documented evidence that well established cooperative movements in top world economies like Germany, China or India were pioneers with successful intents to help the poor free themselves from a vicious cycle of poverty and indebtedness, before becoming one of the main economic forces and one of the first employers in these countries. The fourth section examines some examples of cooperatives providing today's poor and disadvantaged with the key to formalization through a series of modalities (credit, organization of production, insurance etc.).

The fifth section provides ILO references to cooperatives in relation to the transition towards the formal economy. The sixth section provides an analysis of cooperatives' contributions under several aspects of the *Proposed Conclusions* on the transition to the formal economy, agreed upon at the 2014 session of the International Labour Conference (ILC). Finally, in the seventh section, a few suggestions are provided on how cooperatives' role in the transition towards the formal economy could be appropriately highlighted in the proposed Recommendation.

This document is addressed first and foremost to delegates from Governments, Employers and Workers who will participate in the Commission on the Transition to the Formal Economy at the 2015 Session of the ILC (Geneva, 1-13 June 2015).

1. THE IMPORTANCE OF COOPERATIVES AS A GLOBAL SOCIO-ECONOMIC ACTOR

The International Cooperative Alliance estimates the number of cooperative members to be over one billion.⁵ Even if one reduces this figure in order to address double counting (hypothesizing that no more than half of cooperative members are members of two or more cooperatives), at least 650 million people worldwide are members, namely co-owners, of a cooperative enterprise. This roughly corresponds to 15 per cent of the world's adult population, a considerable socio-economic phenomenon.⁶

As for the cooperatives' economic importance, the contribution of cooperatives to the German, French and Italian GDPs, for example, is over 7 per cent.⁷ A few sectoral examples may provide an even better idea. In agriculture, cooperatives in the EU as a whole have a share of over 50 per cent in the supply of products and of over 60 per cent in collection, processing and marketing. In the USA, 30 per cent of agricultural products are marketed through cooperatives. In Brazil, cooperatives produce 40 per cent of the agricultural GDP. In retail, consumer cooperatives' share of national retail markets is, for example, 55 per cent in Singapore, 43 per cent in Finland, 38 per cent in Denmark, 24 per cent in Norway, 21 per cent in Sweden, 17 per cent in Italy and 14 per cent in Hungary. In the health sector, cooperatives account for 21 per cent of the Spanish health market. In social services, cooperatives are the first private supplier in Italy. In insurance, the global market share of cooperatives and mutuals is around 24 per cent. In banking, cooperatives hold 18 per cent of EU countries' deposits and 16 per cent of the EU's credit market.⁸

According to the study *Cooperatives and Employment – a Global Report*,⁹ which was presented at the *International Summit of Cooperatives* in October 2014 in Quebec City in the presence of ILO Deputy DG Sandra Polaski, at least 250 million persons on earth enjoy full or part time employment generated and ensured within the framework of a cooperative. In the G20 (which covers 64 per cent of the world's population and 85 per cent of the world's GDP), the proportion of cooperative employment to the total employed population is around 12 per cent. Another important feature is that such employment tends to be stable and to be well balanced between rural and urban areas, smaller and bigger towns, and rich and poor regions.

2. HOW COOPERATIVES AND OTHER SOCIAL AND SOLIDARITY ECONOMY ENTERPRISES PROMOTE THE TRANSITION TOWARDS THE FORMAL ECONOMY

The impact of cooperatives on the transition to the formal economy is the result of the implementation of cooperatives' key mission as expressed by their very international definition included in *Promotion of Cooperatives Recommendation n°193* (2002), which states that 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”.¹⁰ When the quest of satisfying common economic, social and cultural

needs and aspirations applies to individuals who find themselves in the informal economy, such needs and aspirations generally include formalization. This can be done in various fashions, including:

- by associating with other individual producers in making their production and commercialization/marketing of their goods or services more predictable and economically sustainable;
- by establishing an SME with a single production system and achieving economies of scale enabling it to turn into a formal economy enterprise;
- by creating and/or joining a credit and saving system that will give them productive credit, enabling them to consolidate their economic activities, laying the basis towards the transition towards the formal economy;
- by providing a certain level of social protection, including health insurance, through self-funded and mutually established insurance systems.



Even when supported by promotion policies, cooperatives are neither para-governmental development agencies (4th cooperative principle: “*autonomy and independence*”),¹¹ nor charities helping the people. They are owned and controlled *by* the very people who try to meet their common socio-economic needs and aspirations. Self-help (including the concept of mutuality) is thus at the very root of the cooperative experience and is one of the cooperative underlying values.¹² It constitutes a strong factor of sustainability and, in turn, a strong element in carrying out the transition to the formal economy.

The “*one person one vote*” cooperative governance (2nd cooperative principle: “*democratic member control*”),¹³ backed by strong information and training practices (5th cooperative principle: “*Education, training and information*”),¹⁴ empowers each cooperative member. Each member can have his/her voice heard and his/her position properly represented, a fundamental enabler in the transition.

The constant re-investment of part of the surplus in the cooperative’s mission provides the financial means to carry out the transition. The redistribution of another part of the surplus to members according to how much they have sold, purchased or worked within the framework of the



cooperative (and not in function of their invested capital) reinforces equality and equity (another two cooperative values) among members, which is also conducive to the transition (3rd cooperative principle: “*member economic participation*”).¹⁵

At the same time, cooperatives are enterprises fully-embedded in their communities, open to all who could be their members, without any type of discrimination (1st cooperative principle: “*voluntary and open membership*”).¹⁶ They are committed to helping their surrounding community (7th cooperative principle: “*concern for community*”)¹⁷ and other cooperatives (6th cooperative principle: “*cooperation among cooperatives*”).¹⁸ This close relation between cooperatives and their community plays a fundamental role in the transition, in as much as it makes it possible for informal economy workers and producers to become their members and thereby undergo the transition together.

All these cooperative operational principles, which appear in *Promotion of Cooperatives Recommendation n°193* (2002), interact with each other to form a business model that provide the necessary learning space, economies of scale and organizational practice to enable individuals to work together and carry out their transition towards the formal economy, while being permeated by the cooperative underlying values which make the cooperative enterprise one of the most natural options for informal economy groups and workers.

As mentioned earlier, cooperatives are the main constituent part of the social and solidarity economy. Other types of enterprises grouped under the latter also provide a substantial

contribution in the transition to the formal economy, in as much as they apply the cooperative rationale explained above, and, in the case of informal economy self-help groups, because they often lay the ground to the establishment of duly registered cooperatives.

3. HISTORICAL EXAMPLES OF HOW COOPERATIVES CONTRIBUTED TO LIFTING PEOPLE OUT OF POVERTY

The following three historical examples provide evidence of fully-completed historical cycles, in which cooperatives largely contributed to lifting hundreds of thousands of people out of poverty, by following the same organizational and entrepreneurial rationale by which they now contribute to the transition from the informal to the formal economy; and, on this basis, substantially contributed to the modernization of their national economies, showing in addition resilience to crises, including the present one.

a) The Raiffeisen and Schultze-Delitsch systems in the 19th Century lifting millions of Germans out of poverty and indebtedness

In the middle of the 19th Century, much of the German countryside was plagued by famine and economic stagnation. In 1846, Friedrich Wilhelm Raiffeisen began working in support of cooperatives, helping peasants in their fight for survival and against usurers. He oversaw the emergence of a rural credit and agricultural network based on strong local units, federated regionally and later united nationally into a central cooperative bank and a federation of agricultural cooperatives. During the same period, Schulze-Delitzsch established cooperatives for shoemakers and joiners and other types of small entrepreneurs. By 1864 there were 400 such local groups; the next year a central cooperative bank to service their needs was established.

At the outbreak of World War I there were already 34,568 cooperatives in Germany with a total membership of 6.2 million, and, together with it, a massive transition from a vicious cycle of poverty and indebtedness towards stability and development for millions of farmers and craftsmen, thus laying the ground towards Germany's industrialization.¹⁹ The German cooperative movement today is among the strongest in the world.²⁰

b) Gung Ho in China during the Sino-Japanese war and the second world war

Gung Ho was established as an industrial cooperative movement when the Sino-Japanese war broke out. Shanghai and its industries were systematically bombed. Thousands of refugees poured into the hinterland, worsening the economic situation of already poor regions. By organizing people in cooperatives, the idea was to provide jobs to these refugees and to produce goods for the Chinese army and for daily use, thereby practicing a form of industrial resistance. Seed funds and basic technical training was provided to cooperatives by the Gung Ho Association. At the height of its development in 1938, Gung Ho had over 3,000 cooperatives across China producing various kinds of goods, active both in areas controlled by the Communist Party and by the Kuomintang. Through Gung Ho tens of thousands of refugees and poor without a job were able to work. Health centres, creches and professional schools were also established, providing much

needed basic health and educational services in an affordable manner that were either not available or too costly.²¹

The Gung Ho leaders are still today recognized for their invaluable contribution to the development of cooperatives in China.

c) Milk cooperatives in India among poor milk producers in the 1940s, leading to India becoming the first milk producer in the world

In the state of Gujarat, exploitative trade practices followed by local middlemen triggered off the birth of an important milk cooperative movement. Many poor farmers faced starvation during off-seasons. As milk is perishable, farmers were compelled to sell their milk for whatever they were offered, and discontent among the farmers grew.

In 1946, the farmers of Kaira district went on a milk strike and, in the same year, formed their own cooperative for procurement, processing and marketing, beginning with just two village dairy cooperative societies and 247 litres of milk. Producers who had little voice in the determination of price in the supply chain were able to get fairer prices and improved their livelihoods through the cooperative. This was the first district cooperative of what is known today as the Amul Dairy cooperative group, which today gathers around 3 million producer-members in 17 district cooperative societies, in turn grouping around 17,000 village cooperative societies. It produces 14 million liters per day.

India's National Dairy Development Board (NDDB) was established in 1965 right in the middle of the Amul area, at Anand in Gujarat. The NDDB began promoting the Amul cooperative model to the rest of the country as of 1969 with a very ambitious programme known as the "White Revolution". As a result, India has now become the largest producer of milk in the world, with 15 million cooperative producer-members across the country, against 1.7 million in 1980.²²

4. MODERN EXAMPLES OF COOPERATIVES CONTRIBUTING TO THE TRANSITION TOWARDS THE FORMAL ECONOMY

The seven examples below are just an illustration of a host of experiences that are taking place all over the world and are early signs of a large transition towards the formal economy.

a) Chaku Savings and Credit Cooperative Society, Dar es Salaam, Tanzania

The majority of Tanzanians depend on the informal economy. In Dar es Salaam, most people try to make both ends meet as traders or sellers on the streets, and no bank will lend them money to improve their activities; they were the prisoners of a vicious circle of precariousness.

In 2002, four youth formed a self-help group to do waste collection in a neighbourhood of Dar es Salaam; seeing that the users of their service were not prepared to pay them for their work, they had the idea to establish a Savings and Credit Cooperative Society (SACCO). After several months of preparation, the Chaku SACCO was registered in 2003 with 260 members (73 per cent being women). Membership training was provided as part of the ILO SYNDICOOP project to help

the members manage their cooperative, a step which later proved to be essential. In 2006, the members were over 800. By collecting small sums, they were gradually able to provide small loans to the poor. A woman member explained that she received a loan of 50,000 shillings; after one year, her grocery business had quadrupled (from 30,000 to 120,000 shillings a year) and her profit margin had doubled (from 15,000 to 30,000 shillings a week); she started employing two persons and could send her daughter to a secondary school.²³

b) The Uganda Shoe-shiners Industrial Cooperative Society

The Uganda Shoe-shiners Industrial Cooperative Society was initiated in 1975 by homeless street boys and girls who had, for a long time, bore the wrath of the city authorities for operating without licence. After organizing themselves into a cooperative and having attained legal status, they proceeded with a request to the city authority for the allocation of working areas in the city. Success followed, and in a couple of years they started manufacturing shoe brushes and using environment-friendly materials.

In 2007, the cooperative had more than 600 members and had created branches in other cities of Uganda. Thanks to their affiliation to the Uganda Cooperative Alliance, they benefitted from training courses. The Cooperative Savings and Credit Union of Uganda provided loans to their members, who have clearly moved to the formal economy and enjoyed higher and more stable incomes since working within the framework of the cooperative.²⁴

c) Extremo transport and tourism cooperative, Joao Pessoa, Nordeste region of Brazil

The Extremo cooperative was established in 2006 by a group of 30 persons who each possessed a van and worked informally, dependent on the orders of travel and tourism agents and hotels and having to accept their prices. Today the cooperative comprises 40 members and their families. They estimate that 80 per cent of them live exclusively from this job and that each member on the average works 70 per cent of his/her time through the cooperative, and 30 per cent on his/her own. The cooperative legalizes members' vehicles and coordinates the member's work. They have a rotation system among the 40 members, by which each of them receives a job one after the other.

They claim to have a higher income than before, but the biggest advantage they see is to have a more stable income, which allows them to better plan their future. They see a very strong potential in the development of tourism in the region, as well as through conventions with schools and government events. They are planning to



combine transport activities with a tourism component, and to begin having regular office staff for that purpose.²⁵

As can be observed, the cooperative has had a clear function of lifting informal economy transport workers move towards the formal economy. One of the cooperative's remaining concerns is the lack of regulation regarding inter-state van transport service.

d) The Sisters Hand-Weaving Cooperatives in Shanghai, China

The Shanghai College for Women's experimental Correspondence Continuing Education has helped students organize the Sisters Hand-Weaving Cooperatives through skills training and cooperative education, thereby helping disadvantaged groups of women, usually working in informal activities, become self-reliant, engage in a trajectory of workers' entrepreneurship and get rid of poverty. The school has helped establish 18 cooperatives of that type, which founded the Weaving Arts Cooperative Union together with the Shanghai Wulixiang Community Service Centre. The Shanghai College for Women's Experimental Correspondence Continuing Education is a women's non-governmental school founded in 1994. Since the school was founded, it has carried out more than 20 kinds of professional practical skills training courses, free or almost free of charge, attended by more than 30,000 women including Shanghai unemployed workers in great difficulties, migrant women peasant workers, poor rural women from the suburbs, helping them learn skills and become self-employed, and therefore avoid plunging in, or returning to the informal economy.²⁶

e) The SWaCH waste-pickers' cooperative, Pune, India

In Pune, a city of 5 million inhabitants in Maharashtra State on the Western coast of India, a waste pickers' trade union, KKPKP, was established in 1993 in order to have the city's waste pickers recognized as workers. Indeed, the formal waste collection by the municipality only made up a small percentage of the waste collection activity, the rest being in the hands of hundreds of waste pickers in the informal economy doing extremely difficult work without any protection and exposed to many occupational health hazards. The majority of these informal waste pickers are women who come from marginalised castes. KKPKP proposed a model of waste collection that was economically rational and at the same time respectful of the environment. In 2007, KKPKP promoted the establishment of the SWaCH cooperative as a provider of waste management services to Pune City, under a Memorandum of Understanding signed with the Pune Municipal Corporation in 2008.

Today the cooperative has over 2,100 members, around 1,400 of whom work on a daily basis and pay a regular 5 per cent of their earnings as membership dues to the cooperative, which comes from fees they get from residents as well as from re-sale of recovered material. Half of them have been members since the MoU was signed, showing a slow turnover of members and the stability of the jobs provided by the cooperative. As per the cooperative's statute, three fourth of members must be women, who must also be at least two thirds of the cooperative's board.

The cooperative strives to deliver professional waste collection services while providing decent pay and working conditions, as well as social protection to members. These are better remunerated



and more efficient than when they were in the informal economy and they work less. They get returns from the cooperative's annual surplus, and a scheme is being put in place for health insurance and retirement benefits. The dignity of the waste pickers has also been considerably improved, as one woman member explains; when describing her earlier life, she says: *"I spent my day at a garbage bin, and it was hot and dirty work. Even if I had a bath in the morning, by midday I was stinking. So why bother to stay clean? But now I have to go into people's offices to collect money, I have to look decent"*. And she explains: *"What is most important is the respect of other people. Today, when I go to the department to collect my money, the lady there asks me to sit on a sofa. If she is drinking tea, she will ask for another cup for me. I can walk into the canteen and sit at a table and eat, no one even looks at me"*.²⁷

f) Immigrant cooperatives in cleaning and care services (including children and the elderly) in New York

Domestic workers work in private households for private individuals. In many countries, these are not considered workplaces or employers. Close to a third of domestic workers in the world are excluded from national labour regulations and do not have access to maternity protection rendering them informal.²⁸

Cooperatives can provide a way out of precarious and informal working arrangements, which can be a feature of working life for many migrant workers. They can offer access to key services needed

by domestic workers, including training and education, housing, and financial services as well as care services for their own families.

Si Se Puede! (We Can Do It!) Women's Cooperative was founded in Brooklyn in 2006, with the mission to bring together immigrant women to create a women-run, women-owned, eco-friendly housecleaning business. The cooperative is designed to create living wage jobs that will be done in a safe and healthy environment, as well as to provide social supports and educational opportunities for their members.

These women previously worked in the informal economy. They are all registered members of a registered cooperative. The cooperative has 65 members (as of March 2015), all of whom have completed a probationary training. All of the members, who are all immigrants, have an equal voice in decisions regarding policies and operations. In addition, members work together to promote the business and meet bi-weekly for on-going training and support.

Since the beginning, Si Se Puede!'s work has been supported by the Center for Family Life, a nonprofit community-based organization providing social services in Brooklyn since 1978. The Center has incubated another four similar immigrant worker cooperatives. At the beginning of the cooperatives' life, the Center provides the cooperatives with legal premises and administrative support. It is now incubating another four cooperatives, within the framework of the ongoing municipal policy in New York, which is actively promoting worker cooperatives, including among the immigrant population of the country.²⁹

g) Cooperative *Les Constructions Ensemble* (Buildings Together) in Quebec, Canada

The construction sector in Quebec is strongly regulated by a provincial tripartite commission composed of employers, trade unions and government. Training and qualification, wage levels, working conditions and social security are regulated by this commission. This allows cooperatives to position themselves with a similar level of labour cost, compared to their competitors, so that real competitiveness comes from more technical and managerial aspects, instead of labour costs. At the same time, the construction sector, being in high demand, is plagued by a taste for informal work arrangements: a small private entrepreneur who does small jobs in clients' homes may be tempted to do some of the work with invoices and some without. In such situations, workers are not covered by health benefits, or by on-the-job injury protection which would provide wages for time off work in the event of a work injury.

The worker cooperative *Les Constructions Ensemble* (Buildings Together) in Quebec, Canada, provide its employees with a decent work place and their customers with quality services and appropriate prices, ensured by their team work and the sense of co-ownership of the worker-members. *Les Constructions Ensemble* is a successful cooperative demonstrating an environment where workers gain and work in the formal economy with documented work agreements, regular work and wages and a quality work environment.³⁰

5. WHAT DO ILO TEXTS SAY ABOUT COOPERATIVES' ROLE IN THE TRANSITION?

The transition from the informal to the formal economy is explicitly mentioned in an ILO instrument dedicated exclusively to cooperatives, namely ILO *Promotion of Cooperatives Recommendation* n°193 (2002), voted unanimously but for two abstentions. It states that: “Governments should promote the important role of cooperatives in transforming what are often marginal survival activities (sometimes referred to as the “informal economy”) into legally protected work, fully integrated into mainstream economic life” (Art. 9).

This statement underlines that cooperatives have an “important role” in three key characteristics of the “proposed conclusions” agreed upon between governments, employers and workers at the Commission on Transition to the Formal Economy at the 2014 Session of the ILC, namely:

- a) that the informal economy, being often characterized by marginal survival activities and work, has to be clearly distinguished from illegal and criminal economy (eg child or bonded labour);
- b) that there is generally no clear-cut passage from the informal to the formal economy, but that there is a gradual transition through a transformation process;
- c) that the concept of formal economy comprises both:
 - the concept of formal enterprise, including administrative formality, and the possibility for the business to operate in mainstream economic life;
 - the concept of formal employment, including social protection as well as decent and legally protected work.

ILO *Promotion of Cooperatives Recommendation* n°193 also refers to the social and solidarity economy (without naming it explicitly), by pointing out that “A balanced society necessitates the existence of strong public and private sectors, as well as a strong cooperative, mutual and the other social and non-governmental sector”³¹ and that “Measures should be adopted to promote the potential of cooperatives in all countries, irrespective of their level of development, in order to assist them and their membership to ... establish and expand a viable and dynamic distinctive sector of the economy, which includes cooperatives, that responds to the social and economic needs of the community”.³²

The discussion within the Committee discussing the Recommendation during the 2002 session of the ILC reflected wide convergence among employers, workers and governments on the need to promote cooperatives, including in acknowledging their contribution in the transition to the formal economy and to the integration of disadvantaged persons and groups.³³ The Recommendation was finally approved unanimously but for two abstentions, namely one country and one national employer organization, reflecting the ample consensus that had been reached on the contents of this instrument.

While ILO *Promotion of Cooperatives Recommendation* n°193 (2002) was in final phase of discussion in 2002, another discussion was being held at the ILC on the informal economy. The preparatory report for this discussion acknowledged that cooperatives “carry out economic activities that

support the economic units of their members” and that “organizing in cooperatives could also be seen as one step on the path towards formalization”.³⁴ It reports the ILO DG’s study to the 1991 session of the ILC saying that “the small informal organizations within the informal sector are essentially ‘pre-cooperative’ in nature and based on the very principles and traditions that characterize a genuine cooperative movement – the active participation of their members, democratic management and control of their activities, and an equitable distribution of benefits among their members”.³⁵ The report also underlines a number of joint initiatives between the trade unions and the cooperative movement as well as the considerable room for improvement in such collaboration.³⁶

In 2003, an analysis on informal employment was published after the 2002 International Conference of Labour Statisticians (ICLS) building on the results of the 1993 ICLS. In it, employment in the informal economy is divided into five categories: own-account workers; employers; contributing family workers; employees; and members of producers’ cooperatives.³⁷ The report further notes that jobs are considered informal because “they are outside the framework of regulations either because (a) the enterprises, in which the jobs are located, are too small and/or not registered, or (b) labour legislation does not specifically cover or is not applied to atypical jobs (such as casual, part-time, temporary or home-based jobs) or to subcontracting arrangements in production chains (such as industrial outwork), so that the jobs (and, therefore, their incumbents) are unprotected by labour legislation”.³⁸ However, the study eventually argues that, in the case of producers’ cooperatives, scenario (b) does not apply because “producers’ cooperatives, which are formally established as legal entities, are incorporated enterprises and, hence, part of the formal sector. Members of such formally established producers’ cooperatives are considered to have formal jobs”.³⁹

In 2014, in an ILO paper focusing on the relationship between cooperatives and the United Nations Sustainable Development Goals (SDGs), the issue of the transition towards the formal economy was addressed under SDG 8, namely “promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”. Target 8.3. of SDG 8 is worded as follows: “promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage formalization and growth of micro-, small- and medium-sized enterprises including through access to financial services”. The ILO paper’s corresponding comment is that “cooperative development policy, as a subset of national policy, plus the appropriate legal and institutional framework, can provide an environment that is conducive to joint entrepreneurship, to the creation of decent jobs, to building bridges between informality and formality, as well as to access to finance”.⁴⁰



6. COMPONENTS OF THE “PROPOSED CONCLUSIONS” AGREED UPON AT THE 2014 SESSION OF THE ILC WHICH PARTICULARLY CONCERN COOPERATIVES AND ARE ALSO REFERRED TO IN ILO R 193

6.1. Legal and policy framework (section III of the “proposed conclusions”)

“*Generation of quality jobs*” (12 a))

Based on ten weeks of fieldwork in regions of ten different countries (three of which with a high concentration of informal economy),⁴¹ the study *Cooperatives and Employment – a Global Report* argues that employment in cooperatives tends to be more secure than the average: since cooperatives are stakeholder-based enterprises established for the long-term, it is logical that their producer-members, their worker-members and their employees also benefit from stable employment or production conditions. The fieldwork has also highlighted a particularly strong sense of identification with the cooperative among members and staff, and employees and managers alike often perceive that the ultimate employer is the surrounding community, a factor which tends to improve job stability. For many self-employed producers working within the framework of cooperatives, stability does not only concern their own person, but often also members of their families and the generations to follow.

Apart from stability, another feature of cooperative employment is a strong trend towards mobility within the enterprise, and a third that the income gap is decisively lower than in the average of enterprises.

The contribution of cooperatives to the generation of quality jobs is even clearer in the case of persons who are excluded from the formal economy such as undocumented people, immigrants and low-income women.

“*an appropriate legislative and regulatory environment*” (12 b))

Appropriate regulation for cooperatives makes it possible to register them, and thence to have workers and producers make a decisive step forward towards the formal economy. A main trend in cooperative legislation over the last 15 years has been a strong reduction in the minimum number of founding members (eg from 9 to in Italy, from 7 to 3 in Germany, 20 to 7 for worker cooperatives in Brasil) and minimum capital. Such efforts should be done in all countries, so as to make the registration of cooperatives really adapted to persons who are in the informal economy.

“*the respect, promotion and realization of the fundamental principles and rights at work*” (12 d))

Cooperatives are committed to taking into account the fundamental principles and rights at work. ILO *Promotion of Cooperatives Recommendation* n°193 (2002) mentions them in its preamble the following, together with a series of other labour standards.⁴²

These ILO standards were formally endorsed by the Board of the International Cooperative Alliance before the final approval of the Recommendation in June 2002. The fieldwork conducted during the study *Cooperatives and Employment – a Global Report*, as well as other surveys conducted over

the last few years, including among persons previously in the informal economy, indicates that ILO labour standards are abided by.

“the promotion of entrepreneurship” (12 g)

“[C]ooperatives and other social and solidarity economy units” are mentioned under this point, but their specific strengths in promoting entrepreneurship are not mentioned. As per ILO Recommendation 193, cooperatives are fully fledged enterprises (Art. 2) and *“operate in all sectors of the economy”* (Art. 1). With 15 per cent of the world population being their members-co-owners, they are numerically the type of fully fledged enterprise that proves to be the most accessible to ordinary citizens, including those in the informal economy; in addition, owing to their democratic governance, they are enterprises in which ordinary citizens intrinsically need to understand and practice entrepreneurship in order to be sustainable.

“access to education, lifelong learning and skills development” (12 h))

The 5th cooperative principle, namely *“education, training and information”* (included in ILO *Promotion of Cooperatives Recommendation n°193* (2002) like the other cooperative principles) commits cooperatives to this component, which is necessary to ensure not only the economic sustainability of enterprises established for the long-term, but also the proper governance.

“access to financial services” (12 i))

Through the 6th cooperative principle, namely *“cooperation among cooperatives”*, cooperatives tend to establish solidarity funds and mutual guarantee mechanisms, which provide positive leverage on banks. Many savings and credit cooperatives are established to provide loans to persons operating in the informal economy and who are thus unable to secure bank loans in order to steer themselves out of the informal economy.

“access to business services” (12 j))

Still under the 6th cooperative principle, a number of cooperative organizations have established training and advisory services in order to help cooperatives solve their business problems rapidly and efficiently. These services have proved to have a considerable impact on the economic sustainability of cooperatives.⁴³

“access to markets” (12 k))

Access to markets is one of the most fundamental role of many producers' cooperatives. In such cases, the cooperative not only provides market



opportunities to its members, but may also improve market efficiency as they reduce the impact of middlemen.

“local development strategies, both rural and urban” (12 o))

The local and regional development impact of cooperatives has been little studied so far but it has become obvious in a number of regions such as Emilia-Romagna in Italy and the Basque Country in Spain⁴⁴ where cooperatives, after having enabled workers and producers out of poverty, have been able to deeply foster regional development through networks of civic involvement organized in reciprocity.⁴⁵

Another strong feature of the cooperative system is that it tends to develop well in urban as well as in rural areas, including in non-agricultural sectors. Thus, cooperatives should not only be seen as a constellation of small enterprises able to provide a few jobs each, but a considerable potential force for local and regional development.

“the establishment of social protection floors where they do not exist, and the extension of social security coverage” (12 n))

Several cooperative networks have established mutualized initiatives in the field of social protection and insurance, such as SEWA in India, but also in the late 1950s in the Mondragon group in Spain’s Basque country, at a time when workers in cooperatives, being considered as self-employed, benefitted from no social protection system whatsoever.

« income security » (12 r))

The higher level of income security provided by cooperatives is often perceived by people undergoing a transition to the formal economy as being as important as income increases, because it allows them to start planning their economic activity and their life in a long-term fashion. Indeed, one of the most difficult components of the informal economy to come to grips with is the difficulty to plan in advance.

6.2. Employment policies (section IV of the “*proposed conclusions*”)

- *“trade, industrial, tax, sectoral and infrastructure policies that promote employment, enhance productivity and facilitate structural transformation processes” (16 b))*
- *“comprehensive activation measures to facilitate the school-to-work transition of young people, in particular those who are disadvantaged, such as youth guarantee schemes to provide access to training and continuing productive employment” (16 f))*

The global youth unemployment rate remains alarmingly high, with many young workers in the informal economy. *“Acknowledging the challenges of youth unemployment, the United Nations’ Secretary-General identified ‘working with young people’ as one of his top priorities in his five-year action agenda. He explicitly called for deepening the youth focus of all existing UN system programmes and requested the Inter-Agency Network on Youth Development to spearhead the development of a UN System-Wide Action Plan (SWAP) on Youth, which incorporates the priority areas of youth employment,*

entrepreneurship, political inclusion, citizenship and protection of rights, and education, including on reproductive health. On this regard, the focal point on cooperatives at the Division for Social Policy and Development seeks to contribute to the Secretary-General's priority by highlighting the role of cooperatives, specifically of youth cooperatives, in the promotion of employment and entrepreneurship among young people".⁴⁶

In some countries, tax policies have been introduced for cooperatives employing physically, mentally or socially disadvantaged people. Such policies are based on the principle of compensation for the fact that cooperatives provide secure employment to disadvantaged people and that this constitutes a cost. They have proved to be highly successful: over 35,000 disadvantaged people work in Italy's social cooperatives, including immigrants. This type of policies could be implemented in other countries for informal workers.

Public procurement policies such as reserved markets for cooperatives and other social and solidarity enterprises whose mission is work integration of disadvantaged people, like the one launched with the new European Union public procurement directive, should also be promoted and should include informal economy workers.

6.3. Rights and social protection (section V of the “*proposed conclusions*”)

“freedom of association” (17 a)) and “the elimination of discrimination in respect of employment and occupation” (17 d))

Cooperatives are based on freedom of association without any type of discrimination as per the 1st cooperative principle, namely *“voluntary and open membership”*, which stipulates that *“Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination”*.⁴⁷

“the elimination of all forms of forced or compulsory labour” (17 b)) and “the effective abolition of child labour” (17 c))

Apart from the fact that the abolition of these two worst forms of labour exploitation are mentioned in the preamble of ILO *Promotion of Cooperatives Recommendation n°193 (2002)* (see section 5 above), cooperatives are one of the main enterprise models to combat forced labour, which is generally linked to indebtedness, a plague which is often at the origin of cooperative movements.

7. MENTIONING EXPLICITLY COOPERATIVES IN THE NEW RECOMMENDATION

Based on the above considerations and examples, it is highly recommended that cooperatives be explicitly mentioned in the proposed Recommendation concerning the Transition from the Informal to the Formal Economy. A clearer acknowledgement, in the Recommendation, of cooperatives' actual and potential contribution to the transition towards the formal economy will clarify the role of cooperatives in the formalization process and will guide the policy framework of the new instrument. In this way, the UN work that is currently being done by various agencies and

institutions will also be guided and heightened. This could be done in the following sections as follows:

- **Preamble:** include a reference to cooperatives' important role in the transition to the formal economy mentioning ILO *Promotion of Cooperatives Recommendation* n°193 (2002).
- **Legal and Policy Framework:** include references to the need to promote the important role of through their dynamics of participation, the generation of quality jobs, social protection, entrepreneurship dissemination, skills training, access to business support, finance and markets, and local development.
- **Employment Policies:** cooperatives' key role in employment policies in general and in carrying out the transition from informal employment towards formal employment, in particular towards the youth and women, should be mentioned. Specific tax and public procurement policies targeted at informal economy workers who are establishing or joining cooperatives should be proposed.

CONCLUSION

This document argues that the cooperative entrepreneurial model is particularly adapted to lifting people out of poverty and carrying out the transition to the formal economy. Cooperatives do so effectively and efficiently because they provide people with a voice, representation and empowerment, while also generating an array of instruments for entrepreneurial development. The proposed Recommendation concerning the Transition from the Informal to the Formal Economy can be an important opportunity to recognize and promote the contribution of cooperatives in this respect. Indeed, whereas cooperatives are based on self-help and mutual help, they need appropriate regulation and public policies to bring their contribution into full play, taking into account that, as formally stated by the ILO, “*cooperatives in their various forms promote the fullest participation in the economic and social development of all people*” and are important “*in job creation, mobilizing resources, generating investment and [for] their contribution to the economy*”.⁴⁸

ENDNOTES

- 1 http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R193
- 2 According to its 2002 definition restated in the Report V(1) *Transitioning from the Informal to the Formal Economy*, the ILO defines the term “informal economy” as referring to “all economic activities by workers and economic units that are in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs”. Cooperatives have among their basic functions to help people who find themselves in this situation get freed from it and operate a transition to fully-fledged formal economy.
- 3 <http://unsse.org/>
- 4 ILO (2015) *World Employment and Social Outlook – the Changing Nature of Jobs*, Geneva: ILO, p. 5 http://embarco.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_368626.pdf
- 5 <http://ica.coop/en/whats-co-op/co-operative-facts-figures>
- 6 Sanchez Bajo C. & Roelants B. (2013) *Capital and the Debt Trap – Learning from Cooperatives in the Global Crisis* (Basinstoke & New York: Palgrave-Macmillan, p. 108
- 7 *Ibid.*, p. 106, based on national sources
- 8 *Ibid.*, p. 106-107
- 9 Roelants B., Eum H. & Terrasi E. (2014) *Cooperatives and Employment – a Global Report* (Brussels & Lévis: CICOPA-Desjardins)
- 10 ILO *Promotion of Cooperatives Recommendation n°193* (2002), article 2
- 11 “Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy”; ILO *Promotion of Cooperatives Recommendation n°193* (2002), Annex
- 12 The cooperative values are “self-help, self-responsibility, democracy, equality, equity and solidarity; as well as ethical values of honesty, openness, social responsibility and caring for others”; ILO *Promotion of Cooperatives Recommendation n°193* (2002), article 2
- 13 “Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner”; *Ibid*
- 14 “Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation”; *Ibid*
- 15 “Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership”; *Ibid*
- 16 “Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination”; *Ibid*
- 17 “Cooperatives work for the sustainable development of their communities through policies approved by their members”; *Ibid*
- 18 “Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures”; *Ibid*
- 19 [insert proper reference] https://www.raiba-holzkirchen-otterfing.de/Unsere_Bank/Geschichte/f-w-raiffeisen.php, and Jack Shaffer, *Historical Dictionary of the Cooperative Movement*, The Scarecrow Press, Inc. Lanham, Md., & London 1999; Jost W. Kramer, *Co-operative Development and Corporate Governance Structures in German Cooperatives-Problems and Perspectives*, XIV International Economic History Congress, Helsinki Finland, 21-25 August 2006
- 20 In Germany today, ‘almost every farmer is a member of one or more cooperatives. 60 per cent of all craftsmen, 75 per cent of all retail traders, 90 per cent of all bakers and butchers and over 65 per cent of all self-employed tax advisors are members of a cooperative. The housing cooperatives comprise 3.2 million members and administrate approximately 10 per cent of the rented apartments in Germany’. <https://www.dgrv.de/en/cooperatives/cooperativesasanintegralpartoftheeconomy.html>. Cooperative banks today represent 19 per cent of national market shares in deposits and 16 per cent in credit (see Sanchez Bajo C. & Roelants B. (2013) *Capital and the Debt Trap – Learning from Cooperatives in the Global Crisis* (Basinstoke & New York: Palgrave-Macmillan), p. 106). German citizens working in, or within the framework of, cooperatives are estimated to be 2.5 million people, making up 6.5 per cent of the whole employed population of Germany (*Ibid.*, p. 106).
- 21 Alley R. (1986) *At 90 : Memoirs of my China Years*; Beijing: New World Press, 1986, and conversations with Rewi Alley, Lu Guangmian, Fu Bin, Que Bingguan, Lu Wanru and Ding Jieling between 1986 and 1988
- 22 <http://www.amul.com/m/about-us> and <http://www.amuldairy.com/index.php/about-us/history>
- 23 Smith S. & Ross C. (2006) *Organizing out of Poverty: Stories from the Grassroots – How the SYNDICOOP approach*

- has worked in East Africa, Co-operative College Paper 8; Manchester: the Co-operative College, 24-29
- 24 Mshiu S. (2003) *The Cooperative Enterprise as a Practical Option for the Formalization of the Informal Economy*; ILO Paper available at http://www.businessenvironment.org/dyn/be/docs/200/2.2.2_Cooperative_Practical_Option_Informal_Econ.pdf; Fairborne J. et al (2007): *Microfranchising: Creating Wealth at the Bottom of the Pyramid*; Cheltenham : Edward Elgar
- 25 Interviews carried out by Bruno Roelants in Joao Pessoa in January 2014 within the framework of the study Roelants B., Eum H. & Terrasi E. (2014) *Cooperatives and Employment – a Global Report* (Brussels & Lévis: CICOPA-Desjardins)
- 26 From an article by Tang Zongkun, see <http://www.cicopa.coop/Social-needs-could-increase-worker.html>
- 27 see SWaCH's website www.swachcoop.com and Chikarmane P. (2012) *Integrating Waste Pickers into Municipal Solid Waste Management in Pune, India*, WIEGO Policy Brief (Urban Policies) N° 8, p. 10
- 28 See ILO COOP brief on domestic worker cooperatives http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/publication/wcms_307218.pdf
- 29 sources: www.wecandoit.coop and interview with cooperative members in New York in January 2015
- 30 Based on interviews in the cooperative carried out by Eum Hyungsik within the framework of Roelants B., Eum H. & Terrasi E. (2014) *Cooperatives and Employment – a Global Report* (Brussels & Lévis: CICOPA-Desjardins) and on an article by Kaye Grant to be published in CICOPA's e-magazine *Work Together* in May 2015.
- 31 ILO *Promotion of Cooperatives Recommendation* n°193, Art. 6
- 32 *Ibid.*, Art. 4
- 33 The Employer Vice-Chairperson acknowledged that “considerable consensus had been reached” within the Committee at the 2001 session of the ILC; he considered that the incoming Recommendation “should promote the role of cooperatives in job creation and sustainable development” and “encourage the establishment of cooperatives that provide jobs and economic stability to people and nations”.
- The Worker Vice-Chairperson underlined that the text of the 2001 *Proposed Conclusions* “addressed the key issues of gender equality and the ILO’s focus on decent work” and underlined that the incoming Recommendation “noted the role cooperatives could play in respect of the informal economy”.
- As far as Governments were concerned, a similar consensus could be observed. The Government member of Brazil “referred to the importance attached to cooperatives particularly in terms of employment creation”. The Government member of Panama underlined that in his country “Cooperatives had helped provide employment, reduce poverty and curb rural-urban migration”. The Government member of Mexico “emphasized the importance of the role of cooperatives in employment creation, in economic and social development and in respect of the environment to encourage special support to cooperatives constituted by vulnerable groups”. The Government member of Trinidad and Tobago pointed out that “cooperatives were important in all Caribbean countries” and that “many businesses financed by cooperatives were located in the informal economy. Such businesses would otherwise have been unable to secure finance but instead eventually moved up to become part of the formal economy”.
- The Government member of Kenya emphasized that “the proposed Recommendation ...would help to promote and strengthen the identity of cooperatives based upon cooperative values and principles”. The Government member of Benin expressed that “cooperatives and regular private enterprises, rather than competing, complemented each other”.
- The Government member of India “pointed out that his country had adopted its first cooperative act almost a century ago” and that “since then the cooperative movement had made significant strides in many sectors of the economy”, adding that “his country had a national policy on cooperatives with a clear-cut strategy for sustained development and growth of healthy and self-reliant cooperatives”. The Government member of Indonesia “noted that in his country cooperatives played an important role in economic development, even in times of crises”.
- The Government member of Poland indicated that “cooperatives should provide decent work. Governments should not hesitate to adopt special measures to create the conditions under which cooperatives could develop”. The Government member of New Zealand “supported the proposed Recommendation since it recognized cooperatives as an important business model which could constitute a bridge between subsistence activities and the market economy”. The Government member of the United States indicated that “in her country cooperatives played an important and successful role in different sectors of the economy” and that it was necessary to “create an improved instrument that would truly promote cooperatives”. (ILO (2002) *Report of the Committee on the Promotion of Cooperatives*, International Labour Conference, Ninetieth Session, Geneva, 2002, Provisional Record 23, Geneva: ILO)
- 34 ILO (2002) *Decent Work and the Informal Economy*, International Labour Conference, 90th Session 2002, Report VI (Geneva: ILO), p. 92
- 35 ILO: *The dilemma of the informal sector*, Report of the Director-General, International Labour Conference, 78th Session, Geneva, 1991, p. 46
- 36 ILO (2002) *Decent Work and the Informal Economy*, International Labour Conference, 90th Session 2002, Report VI (Geneva: ILO), p. 94
- 37 Hussmanns R. (2003) *Defining and measuring informal employment*; (Geneva: ILO) p. 5
- 38 *ibid.*, p. 6
- 39 Nevertheless, one can argue that cooperatives do not necessarily manage to provide their producer-members with protection from the point of view of labour legislation; the fact that a cooperative is formally registered and that its producer-members are formally registered as its members does not, *ipso facto*, make the latter fully protected by labour legislation. But the ICLS’s position on this issue shows a recognition that cooperatives do provide an important level of formalization
- 40 Schwettmann J. (2014) *The Role of Cooperatives in Achieving the Sustainable Development Goals – the Economic Dimension*; Geneva: ILO (a Contribution to the UN DESA

Expert Group Meeting and Workshop on Cooperatives The Role of Cooperatives in Sustainable Development for All: Contributions, challenges and Strategies, 8 – 10 December 2014, Nairobi, Kenya), p.9

41 namely Ahmedabad district in Gujerat (SEWA), Gauteng province in South Africa and Paraiba State in Brazil ; see Roelants B., Eum H. & Terrasi E. (2014) *Cooperatives and Employment – a Global Report* (Brussels & Lévis: CICOPA-Desjardins)

42 “Noting the ILO Declaration on Fundamental Principles and Rights at Work, adopted by the International Labour Conference at its 86th Session (1998), and Noting the rights and principles embodied in international labour Conventions and Recommendations, in particular the Forced Labour Convention, 1930; the Freedom of Association and Protection of the Right to Organise Convention, 1948; the Right to Organise and Collective Bargaining Convention, 1949; the Equal

Remuneration Convention, 1951; the Social Security (Minimum Standards) Convention, 1952; the Abolition of Forced Labour Convention, 1957; the Discrimination (Employment and Occupation) Convention, 1958; the Employment Policy Convention, 1964; the Minimum Age Convention, 1973; the Rural Workers’ Organisations Convention and Recommendation, 1975; the Human Resources Development Convention and Recommendation, 1975; the Employment Policy (Supplementary Provisions) Recommendation, 1984; the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998; and the Worst Forms of Child Labour Convention, 1999, and Recalling

the principle embodied in the Declaration of Philadelphia that “labour is not a commodity”, and Recalling that the realization of decent work for workers everywhere is a primary objective of the International Labour Organization”; ILO Promotion of Cooperatives Recommendation n°193 (2002), Preamble

43 See Zevi A. et al. (2011) *Beyond the Crisis – Cooperatives, Work, Finance*, Brussels : CECOP; downloadable from www.cicopa.coop

44 These two regions have been included in the fieldwork for the study Cooperatives and Employment – a Global Report; they are also the ones with the highest GDP per capita in purchasing power parity (PPP) in their respective countries (excluding the regions of Madrid and Milan) according to Eurostat (regional GDP per inhabitant in 2007).

45 Putnam R. (1994) *Making Democracy Work: Civic Traditions in Modern Italy*; Princeton University Press

46 *Contribution of Cooperatives and Youth Cooperatives to Youth Employment and Entrepreneurship*, 2012, UN International Year of Cooperatives Consultant, see <http://social.un.org/coopsyear/documents/ReportofGlobalMapping.pdf>

47 ILO Promotion of Cooperatives Recommendation n°193 (2002), Annex

48 ILO Promotion of Cooperatives Recommendation n°193, Preamble



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