

**Presentation of Gary B. Hansen to The Meeting of Experts on Cooperatives
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The role of cooperatives in the promotion of employment and income

It is a pleasure to be here and to participate in this historic meeting.

My assignment is to briefly review some of the highlights of Report No.3 and set the stage for your discussion of this document—and to make a few provocative.

Let me begin by stating the problem this paper is designed to address.

The Problem:

As you all know, one of the most serious problems facing the world today, is unemployment.

Developing countries are faced with pervasive, continuing high levels of unemployment, underemployment and poverty. The newly emerging democracies of Central and Eastern Europe are experiencing rising unemployment and economic distress. Even industrialized market economy countries are experiencing persisting, high levels of unemployment.

In developing countries:

- ❖ There is a growing need to provide jobs and income for increasing numbers of rural workers who cannot be absorbed in agriculture.
- ❖ There is an urgent need to increase the employment and income of workers relegated to the urban informal sector because the formal sector cannot provide them with sufficient employment and income.
- ❖ Structural adjustments required by international financial institutions impose harsh conditions of unemployment and income loss on the affected populations--usually the poorest and most vulnerable groups.
- ❖ Privatization brings challenging problems of redundancy and unemployment, creates a need for new forms of business ownership, and requires additional sources of employment and more income earning opportunities.

The challenge:

In the context of the worldwide unemployment and poverty problems, I believe the challenge presented to you today, as Experts on Cooperatives, is fourfold:

1. To review the contributions of cooperatives to employment and income;
2. To assess the present status of cooperatives and cooperative development policies as they relate to the promotion of employment and Income;
3. To consider a new or expanded role for cooperatives in the promotion of employment and income; and
4. To make recommendations to ILO (and its Cooperative Branch) concerning whether their cooperative development policies and programs should include a more explicit emphasis promoting employment through cooperatives.

Some definitions:

Before considering what contributions cooperatives have made or can make to employment and income, it is necessary to define some terms which will be used.

First of all, what is a cooperative?

For purposes of this discussion, the definition of cooperatives used is that adopted in ILO Recommendation 127 -- which states that:

"A cooperative is an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which members actively participate. "

As we heard earlier in these proceedings, there is a wide range of different types of enterprises which are, or may be, operated in a cooperative way. It is also important to understand that some cooperative enterprises have greater employment and income generating potential than others.

One way of assessing the employment contribution or potential of cooperatives is to determine the members' relationship to their cooperatives. Is the members' relationship that of clients of the enterprise or workers in it? When viewed in this way, there are two basic categories of cooperatives-*client-owned* and *worker-owned*.

The primary objective of client-owned cooperatives (such as supply, marketing, consumer, and savings and credit cooperatives) is to provide services to their members. These services, in turn, may enhance the income and employment of their members and also generate employment and income for those people hired to work in the cooperative enterprises.

The primary objective of worker-owned cooperatives is to directly create employment and

income for their members through the sale of jointly produced products and services of the cooperative, or to jointly sell their labor in the case of labor-contracting cooperatives.

"Cooperative-type self-help organizations" and "Cooperative-type joint stock enterprises"

In addition to the two basic types of cooperatives, there are two other types of "cooperative-like" organizations which need to be identified because they may have significant impacts on employment and income. These are: cooperative-type self-help organizations and cooperative-type joint-stock enterprises.

Cooperative-type self-help organizations are organizations that operate in a similar way to cooperatives but may or may not be registered as such. In developing countries there is a wide spectrum of such organizations based on traditional forms of mutual solidarity; however, they have very loose formal structures.

Examples of an unregistered type of self-help organization include the traditional rotating savings associations such as the Esusus in Nigeria or the tontines in Cameroon and the Ivory Coast.

Other organizations that are registered as legal entities which have many, if not all, of the characteristics of a cooperative include the economic interest groups ("groupement d'intérêt économique") (GIE), which exist in many francophone countries.

Cooperative-type joint-stock enterprises are closely related to the worker-owned cooperative. They are sometimes called Labour Limited Companies, ESOPs and hybrid ESOP-cooperatives.

In the past two decades, many of these types of enterprises have been developed in Europe and North America. They have been developed:

- ❖ as a response to privatization, plant closings and other adverse employment impacts arising from the traditional corporate form of business enterprise;
- ❖ as a means of giving employees a capital stake in their employers' enterprises; and
- ❖ as a result of a desire to foster greater economic democracy.

Cooperative-type joint-stock enterprises are also being used for many of these same reasons in developing countries. More recently, they are being used to facilitate the process of privatization of state-owned enterprises in Central and Eastern Europe and in some developing countries.

Aspects of the "promotion of employment and income"

One strategy for fighting absolute poverty is to take measures to increase employment to

alleviate high (visible and/or concealed) unemployment. Since the only means the poor have in many countries to secure an income is their own labor, the participation of unemployed persons in the employment process can help to reduce poverty--but this requires new, secure and sustainable employment opportunities. The labor intensive infrastructure (construction and repair) projects carried out by the ILO are one example of this approach.

Underemployment describes a situation in which people have jobs that provide less than full-time work or that are inefficient and/or below their skill qualifications. Earnings are inadequate, particularly in the urban informal sector and for rural wage workers. This situation calls for measures to increase productivity and thereby increase income and reduce poverty.

Structural Adjustment

Structural adjustment is an economic process or programme externally imposed or internally adopted by a country to reduce economic distortions and financial imbalances and make its economy more productive and capable of viable growth--and more attractive from the perspective of international lending agencies, investors and trading partners.

Four basic instruments are typically used in structural adjustment programs:

1. economic liberalization through deregulation of prices and foreign exchange controls;
2. decreasing budget deficits through cuts in subsidies;
3. devaluation of national currencies in order to support production for export and curb imports; and
4. privatization and closures of inefficient public enterprises and parastatals.

Structural adjustment is always a painful process which often exacts high social costs, and which usually impose the greatest suffering on the poorest and most vulnerable people in society. This occurs:

- ❖ through higher purchase prices for food;
- ❖ the discharge of employees who were employed in state owned enterprises and administration;
- ❖ the deterioration of public social services; and
- ❖ the neglect of activities to promote education and provide vocational training facilities.

Wage Employment and Self-Employment

Employment consists of two general types: self-employment and wage employment. Self-employment normally includes employers (including the working owners' of unincorporated businesses), own-account workers, and members of workers' cooperatives and other employee-owned enterprises. The self-employed create employment for themselves as well as for family

members, regular and casual employees and apprentices.

The concept of self-employment has a global application and is relevant to industrialized economies as well as developing countries. It is also very important in urban and rural areas. According to the ILO report on self-employment, over 130 million non-agricultural workers in the world are self-employed, and the numbers are increasing rapidly in areas where unemployment is high and alternatives are limited. For many, it represents survival activities for those on the margin of society.

Informal Sector

The informal sector is closely related to self-employment. As defined by the ILO, it refers to small scale business units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban areas of developing countries, some of whom also employ family labour and/or a few hired workers and apprentices. They are informal in the sense that they are unregistered and unrecorded in official statistics.

According to a recent ILO report, the informal sector has become the survival sector in urban Africa and will be required to generate about 93 percent of all additional jobs in the 1990s.

With that as minimum number of definitions, let's move on to the question of cooperative contributions to employment and income.

The contribution of cooperatives to employment and income

Although difficult to prove, the available evidence supports the conclusion that cooperatives have contributed significantly to employment and to the alleviation of the consequences of poverty.

Unfortunately, there is no hard evidence or reliable data available to document the nature and extent of the cooperative employment and income contributions. Most of the information available on this subject has been collected for other purposes. As a result, the conclusions have to be based primarily on observation, anecdotal evidence and project reports.

Recent research projects on the contribution of cooperatives to employment, such as the 1991 study carried out for the ILO Cooperative Branch, have elaborated on the variety of ways in which client-owned cooperatives and Worker-owned cooperatives have impacted positively on employment and Income.

Supply and marketing cooperatives: Although the employment and income effects of

agricultural supply and marketing cooperatives are modest, they are, nevertheless, important because they can improve the economic situation of their members by reducing the cost of inputs, facilitating access to markets, reducing seasonal price fluctuations, preventing income reductions through introducing and controlling higher levels of quality and standards of weights and measures, and by bringing social and political improvements to their members.

Savings and credit Cooperatives: Savings and credit cooperatives, through their ability to mobilize savings and make loans available to households and small-businesses and farmers, can quickly and efficiently generate positive effects on income for relatively large numbers of people and small-scale enterprises as well as create favorable impacts on employment.

Credit and savings cooperatives can also help free their members from the adverse impacts of financial repressions by financing recombinations of their means of production to increase productivity; this, in turn, stimulates economic growth, employment and income.

Consumer cooperatives: Consumer cooperatives contribute to employment and income of their members by providing competition to private traders and by reducing the cost of the goods and services made available in their communities, thus increasing the purchasing power of their members. Providing employment and income for those who are employees of the cooperatives is also a contribution made by consumer and other cooperatives.

Worker-owned cooperatives: Worker-owned cooperatives are an extraordinarily efficient and direct means of generating employment and income because their primary objective is the creation of employment and income for their members through group entrepreneurship. If these cooperatives are able to work efficiently and compete in the markets they enter, they have great potential to help solve employment problems and generate income.

The success of workers' cooperatives in such diverse settings as Mondragon, Spain, where they have successfully operated in industries as diverse and sophisticated as household appliances and robotics for over 35 years and have generated some 23,000 jobs for their members, and their use by the very poor such as the Chorkor Fishmongers in Ghana, the Mandro Stonecutters in India and the sheep shearers in Uruguay, forcefully demonstrate the employment and income creating potential of this type of cooperative.

Cooperative-type self-help organizations: There are numerous examples of how cooperative type self-help organizations contribute to employment and income. Available data show that organizations such as the traditional rotating savings associations like the Esusus in Nigeria or the tontines in Cameroon and the Ivory Coast mobilize considerable savings in their communities. Also, typical cooperative-type organizations such as the naam groups in Ghana and the nnoboa groups in Burkina Faso improve the efficiency of farming, contribute to community development and facilitate joint handicraft production--thus contributing to the increased income

and well-being of their members.

Cooperative-type joint-stock enterprises: Cooperative type joint stock enterprises have enabled many workers in Europe and North America to retain their jobs and income during the past two decades. In addition to the preservation of jobs, thousands of new jobs and business enterprises have been created.

Other indirect contributions of cooperatives:

For example, Labour Limited Companies have created 54,343 jobs in Spain and ESOPs have preserved hundreds of thousands of jobs for workers in the United States and in other countries--including dock workers in Davao, Philippines when the port was privatized.

Cooperatives have also made indirect contributions to employment and income by

- ❖ increasing the quality of human capital through education and training of members and workers
- ❖ stimulating greater involvement by members in their community and its development, and
- ❖ by encouraging the successful diffusion of innovations which increase farmers' productivity, efficiency and competitiveness.

Alleviation of the employment and income effects of structural adjustment:

Finally, cooperatives can help mitigate the income and employment impacts of structural adjustments, including those leading to privatization and a reduction in public services. For example, in rural areas they can replace state marketing boards and other state operated supply organizations which have dominated agricultural services in a number of developing countries, and which are now being dismantled.

- ❖ Savings and credit cooperatives can help replace the reduction of public spending by mobilizing local financial means.
- ❖ Service cooperatives can help redundant workers find new jobs as is being done in India by a cooperative organized to assist displaced civil servants.
- ❖ Consumer cooperatives can provide food and other staples at reasonable prices to urban residents.
- ❖ Workers' cooperatives and cooperative-type joint-stock companies can be organized to take over state-owned enterprises, and to create new employment for displaced workers.

The services provided by the ACOPAM project in the Sahel countries of West Africa illustrates how cooperative-type organizations have helped mitigate the negative impact of structural adjustments. These self-managed, decentralized, cooperative-type organizations have

successfully replaced parastatals in the provision of services to the affected populations.

Cooperative development institutions and the promotion of employment and Income

A review of the work of cooperative development institutions, including their stated positions and ongoing activities in support of an employment role for cooperatives, suggests several conclusions:

Much effort has been expended over the years by governments, the cooperative movement and international organizations such as ILO and FAO to promote cooperatives.

However, past cooperative development efforts have not been explicitly directed at promoting employment and enterprise creation through cooperatives or mitigating the impacts of structural adjustment. Any employment objectives have been unstated and secondary to the main objective--which is to achieve "benefits for their members" however defined by the members.

The rationale used to support cooperative development appears to be that cooperative groups" can realize socio-economic advantages of cooperation for the benefit of their members and can also give rise to economic, social and socio-political effects on the organization's environment in the interests of the members. "

ILO Recommendation 127 states the rationale for cooperative development this way: "The establishment and growth of co-operatives should be regarded as one of the important instruments for economic, social and cultural development as well as human advancement in development countries. "

But the Recommendation does not provide an explicit *employment* objective for cooperative promotion--except as the word is used in one sentence which says that cooperatives should be developed as a means of "increasing national income, export revenues and employment by a fuller utilization of resources, for instance the implementation of systems of agrarian reform and land settlement..." (p.2)

The lack of an explicit, freestanding employment objective in Recommendation 127, along with the political climate and other pressing concerns in that era, appear to have contributed to cooperative development policies and programs carried out by international organizations, including ILO, which have not emphasized this objective, and, instead, have been biased in favor of agriculturally related activities, rural areas and client-owned cooperatives:

- ❖ Cooperatives have been promoted primarily in rural areas and for agricultural purposes. Little effort has been directed at promoting cooperatives for non-agricultural purposes in rural areas. Virtually no attempts have been made to promote cooperatives in urban areas and the informal sector--either for employment purposes or as a response to structural adjustment.
- ❖ Essentially all cooperative development has focused on the promotion of client-owned cooperatives.
- ❖ No systematic efforts have been made to promote worker-owned cooperatives, the type of cooperative which has the primary objective of employment creation.

For these (and other) reasons, the employment contributions of cooperatives--compared with their potential--have been much less than they might have been, and, I would argue, much less than they need to be if we are to make significant headway in overcoming the serious problems of unemployment, underemployment and poverty in the years ahead.

The Basic Issue

In my judgment, the fundamental question which needs to be addressed by the panel is:

- ❖ Given the magnitude, pervasiveness, and serious consequences of unemployment and the untapped potential contribution which cooperatives can make to employment, and the centrality of employment to the ILO's core mandate, should cooperatives be explicitly promoted for employment purposes by the ILO, and if so.
- ❖ what are the implications of such a decision on the ILO and its Cooperative Branch?

Before you begin addressing this question there are several additional points which should be taken into consideration as part of your deliberations:

1. The issues of unemployment, underemployment and poverty are growing worldwide, they are not abating.
2. The ILO has been moving forcefully in recent years to restrict its activities to conform more closely to its available resources and its core mandate-which ~ include an explicit concern for employment and poverty. In order to receive continued support and funding, future programmes and activities must emphasize more clearly those issues directly relating to the core areas of ILO concern.
3. The ILO, through its Cooperative Branch, has been a world leader in cooperative development for many years. Yet, surprisingly little of its cooperative development work has been directly related to employment. In light of the previous point, one might properly ask--**what are the implications on the Cooperative Branch's future of an ILO cooperative development policy and programme that do not include an explicit and heightened concern for and focus on employment?**

4. The cooperative movement today is much larger and stronger than it was in 1919 when the ILO was created, and hence much of the cooperative development work is now carried out by movement to movement initiatives and through the multitude of international organizations and NGOs which have an interest in the broader aspects of cooperative development. However, very little, if any, cooperative development carried out by the cooperative movement and other institutions has emphasized or considered the promotion of cooperatives primarily for employment purposes.

Would the adoption of an explicit employment promotion objective by the ILO for its cooperative development work provide a positive example to others who are engaged in cooperative development?

5. The most neglected dimensions of cooperative development from the perspective of developing countries, and the areas in most need of employment assistance include:

creating non-agricultural jobs in rural areas and promoting rural industrialization.

Numerous documents and the ILO report on rural employment promotion aptly summarize the situation--and I quote: "In short, it can be said that.. .not much concerted effort was made to develop rural industries in developing countries in the past.. .And yet the potential of rural industrialization for generating productive employment is large and the area deserves attention... "

creatini jobs and income for workers in the informal sector of urban areas. Past efforts to promote cooperatives in the urban informal sector have also been minimal or non-existent. The ILO D-G has called for greater emphasis on employment promotion through cooperatives and other self-help organizations in the informal sector.

stimulating the creation and growth of small and micro-enteqrise since these have the greatest potential for employment and income creation. As yet, to my knowledge, no efforts have been made to use cooperatives as a vehicle to promote group entrepreneurship for (cooperative) enterprise and employment creation--as an alternative to individual entrepreneurship

providing cooperative leadership and creative input into local community economic development efforts. Most local and community economic development efforts are directed at employment creation and stabilization. Yet, there appears to be little cooperative participation or leadership in this process, except for some efforts by the cooperative movements in Britain and Canada, and more recently in some other countries of the EC.

The importance of this issue is expressed in ILO Recommendation 169 (6 June 1984), which states that:

"National employment policy should take account of the importance of small undertakings as providers of jobs, and recognize the contribution of local employment creation initiatives to the fight against unemployment and to economic growth. These undertakings, which can take diverse forms, such as small traditional undertakings, cooperatives and associations, offer employment opportunities, especially for workers who have particular difficulties."

creating jobs and enterprises in developing countries undergoing structural adjustment programmes and in countries that have rejected centralized economic planning. The ILO Director-General has said that "The ILO's task will be to promote policies and programmes that encourage the enterprise spirit and the establishment and development of enterprises and cooperatives with a view to creating jobs."

Clearly, some new and innovative approaches to technical cooperation are needed to increase the cooperative contribution to employment and income--especially in the case of workers in rural areas and the urban informal sectors of developing countries--and to help those people and vulnerable groups adversely affected by structural adjustment in all countries.

Additional Issues for discussion

Let me conclude my remarks by restating what I think is the fundamental issue to be addressed, plus some related issues for your consideration:

1. Are the problems of unemployment and poverty in developing countries--and, for that matter, in Central and Eastern Europe and even some industrialized countries--of such magnitude and consequence that cooperatives should be actively promoted for employment purposes, and if so, what are the implications of such a decision on the ILO and its Cooperative Branch? For example, is the problem of sufficient importance to justify the Cooperative Branch establishing a formal Programme to promote cooperatives for employment purposes?

My own answer to this question is an unequivocal yes! In addition to addressing the urgent need for more employment creation, it would give the Cooperative Branch a leadership role in employment creation efforts and place it in the vanguard of the ILO's search for innovative solutions to worldwide unemployment problems. Equally important, it would place the Cooperative Branch and its technical cooperation activity in

harmony with and in support of an ILO core mandate.

2. Would a formal statement, such as a new page or section in ILO Recommendation 127 or its successor, and specifying a more explicit objective of promoting employment creation through cooperatives, facilitate the introduction of ILO policies and technical cooperation programs to achieve this objective? If so, what should the section contain or specify? Again, I believe the answer is yes, and that you should seriously consider making a recommendation on this issue-- including the outline or content of a proposed section specifying an employment promotion role for cooperatives.

Other questions which could be addressed in your discussion of this topic might include the following:

3. Given the limited resources available to the ILO and other cooperative development organizations, what criteria should be used to establish priorities for technical cooperation or other programmes designed to promote employment and income through cooperatives? What countries should these efforts be directed at? Developing countries? All countries with high levels of unemployment?
4. The privatization of state owned enterprises underway in Central and Eastern Europe and many developing countries have generated opportunities and challenges to workers in these enterprises. Many of them would like to utilize ESOPs and other cooperative-type legal structures as the means of preserving their jobs and obtaining ownership and democratic control of these organizations. Yet they have little experience and knowledge of how to go about it. Some countries do not have suitable laws to provide ownership structures for these ESOP and other cooperative-type enterprises.

How should the ILO respond to this situation? Should the pleas for help be ignored because these enterprises are not "true" or "pure" cooperatives? Or, should a technical cooperation program be developed by the ILO's Cooperative Branch, and technical assistance made available to help the legislators in these nations draft suitable laws for workers' cooperatives, ESOPs and other cooperative-type business structures; and should a training programme be developed to teach the potential employee owners democratic principles of ownership, management and participation?

Should the leadership for these efforts come from the cooperative movement and cooperative side of the house (ILO)? Or should it be left others to promote their ideas and philosophies of business and enterprise without recourse to cooperative and more democratic approaches to economic activity.

5. Should cooperative employment promotion efforts emphasize all types of cooperatives or should they focus primarily on the types of cooperatives with the greatest potential for employment and income generation? What are the implications of such an approach?

For example: Worker-owned cooperatives--with their considerable potential for employment and income creation--have not been promoted in the past. Should the ILO, as part of its future emphasis on promoting employment through cooperatives, develop the research and operational capability to systematically promote worker-owned cooperatives?

My time is up, so I will stop at this point and let you begin your discussion.

Thank you.