

**Relevance of a Co-operative Approach in Unorganized Sector**  
**Enhanced scope of co-operative ventures in the times of economic recession**

**Co-operative Philosophy & Its Relevance:**

The concept of co-operatives guided by the principles of co-operation, promulgated by the International Cooperative Alliance (ICA) way back more than a century ago and reaffirmed again with addition in 1995, was essentially evolved on account of *economy of scale for the weaker and marginalized sections of the society* to provide them well deserved opportunities to meet their needs and earn their livelihood in a sustainable manner.

The co-operatives world over are seen as *enterprises with a social responsibility* that have gradually served the interests of community at large including the less weaker section of the society as well.

The successes of co-operatives in different parts of the world prove the feasibility and effectiveness of value based economic enterprises. India is no exception to that. The green revolution and white revolution became possible only due to vast network and classic federal character of co-operatives in India.

All over the world, generations of *co-operators have known how to merge the ideal with the material and shown how from nothing - or almost nothing - is it possible to release a huge quantity of energy with collective effort and action that is able to produce great results.*

The commitment and spirit of sacrifice coupled with the ethical and cooperative values get rewarded with something more valuable: self-esteem, freedom to do business, and a feeling of being socially useful.

Successful cooperative actions have matured a wealth of experiences through overcoming different crises, at times, quite serious. The creativity, the will to develop, and the ability to manage many contradictions of the volatile economy are some of the features of a cooperative philosophy. *Cooperative relations are not only possible, but also seen in everyday life.*

The global recession that began in mid 2008 spread with a speed that we had not experienced since the Great Depression of the 1930s and it became increasingly worse, with strongly-felt repercussions, not only on our standards of living, but also on perspectives for medium to long term development.

Cooperatives continue to be an important means by which to overcome economic difficulties. For example, the economic crises in the 1930s and 1970s

gave an impetus for the upsurge in founding new cooperatives in the United States and Western Europe; and in Japan, consumers organized a great number of new cooperatives to deal with the disastrous situations after the Second World War.

*This economic crisis is basically the moral crisis of capitalism.*

Many are now recognizing the fact that the idea of markets balancing themselves out is not working. Left to itself, the system produces more and more poor people and fuels the risks to our environment and for the future of humanity.

Adam Smith, the Scottish economist and philosopher, who laid down the basis for the classic political economy, was searching for an ethical way to bring about a better society. Witnessing the abuse of privileges, the exploitation of the many by a few and their undeserved earnings, caused him nothing but disgust. He believed that the *free market should have included values such as solidarity, generosity and the idea of the state, rather than only pursuing the goal to achieve a maximum profit.*

Adam Smith's vision on the possibility to improve the lot of human beings and their living conditions inspired the thinking of Robert Owen, the father of cooperative philosophy, and, therefore, indirectly contributed to development of cooperative economy.

Today, people are beginning to realize that competitive attitude can no longer be seen as prevailing over competitors at all costs. This inevitably results in the destruction of resources harnessed only in the interests of a few.

"Our economy", as President Obama stated in his inaugural speech, "has become incredibly weakened by the greed and irresponsibility of a few. *A nation cannot prosper for long when it exclusively favours the rich*". President Obama concluded, "*We are asked to look to a new era of responsibility to build a fairer and more peaceful world*".

Competing in modern society should be seen in its etymologic meaning of "getting along together", as a way to achieving points of excellence in the market. In this sense, *competing and cooperating are not opposing concepts but both useful for the market to work well.*

As the Nobel Prize Winner for Economics, Amartya Sen, maintains, "*What we need today, is not the invention of a 'new capitalism', but the intelligent and humane use of the notion of cooperation*". The need for a constructive cooperation has never been so urgent. Sen adds that a *market economy is heavily dependent on the psychological mechanism of reciprocal trust and cooperative*

*growth* - a lack of reciprocal trust is one of the most serious and evident causes of the economic crisis, and recovering from this distrust is a key factor for economic recovery.

The cooperative enterprise has an advantage compared to other forms of corporate. This derives from its social ties and rational approach that is transposed into more solid relations of reciprocal trust with its stakeholders.

In today's context, cooperative principles and values are key factors in building a corporate model focused on trust. Cooperative fundamentals lay down an important base but what is more important is to consistently put them into practice, establishing a long-term vision through day-to-day actions, making full use of our strengths and ability to change.

### **Co-operative Enterprises:**

In the past 150 years since the first cooperative enterprises emerged out of the excesses of the industrial revolution, cooperatives have spread over 100 countries into a diverse range of sectors and activities, although cooperatives have been demonstrated to be particularly effective in agriculture.

Cooperatives are now significant economic and social actors with a membership of approximately 850 million people throughout the world as per the statistics of International Co-operative Alliance (ICA).

The primary benefit of cooperatives lies in their instrumentality in enabling people with limited individual resources in a market economy to pool their resources to acquire the economies of scale usually only attainable by larger, well-financed market players. Cooperative enterprises are usually characterized by the qualities and processes such as member-owned; democratic management; driven by a balance between profit motives and the interests of their membership and the community.

Aside from their economic benefits, cooperatives are also reported to offer their members socio-psychological benefits such as a sense of security and belonging, an awareness of personal influence and importance in the local organization.

Recognizing the importance of cooperatives in job creation, mobilizing resources, and promoting the fullest participation in the economic and social development of all people, international agencies have been actively carrying out various cooperative projects.

## Types of Cooperative Enterprises and Cooperative Enterprise Services

Cooperatives can be classified differently based on a number of criteria such as the types of groups served, geographic territory served, functions performed, membership structure, legal status, and financial structure. It is also not unusual for some cooperatives to have large national and/or international operations comprising of multiple functions while some cooperatives concentrate in one specific area.

### Producers' cooperatives:

Producers' cooperatives enable small producers to raise the competitiveness of their products by taking advantages of economies of scale through collective action to reduce input costs and marketing risks. Producers' cooperatives frequently work as an information center or as an extension agency by helping to stimulate new products and production techniques. Some of them can also be active in community development, education in areas of production as well as primary level business management, and government lobbying.

### Service Co-operatives:

Cooperatives can also successfully be engaged in integrated value-added activities typical to the value chain of the product/commodity/service. Cooperative forms of enterprises make possible the cooperative consumer stores, joint purchase of expensive equipment and machineries, which normally would not be possible for the small producer. They offer the benefits of enabling the small producer/consumer to enter into substantially more lucrative and profit-making areas. In some sectors, they are the only way to efficiently overcome barriers to entrepreneurial entry when capital reserves are low and entry costs are high.

### Marketing Cooperatives:

Marketing by cooperatives by selling goods produced by their members in the open markets can maximize returns on the sale of products. This is done through various functional services such as implementing market surveys, arranging contracts with customers, providing training to members to improve and maintain the quality of their produce, assisting producers in improving and increasing their production, collecting goods, controlling products in terms of quantity and quality, and providing such logistics services as processing, packing, storage and delivery.

### Credit Cooperatives:

Agricultural cooperative banks, credit unions, microfinance cooperatives have been known by many names, all these cooperatives basically provide savings and credit to their members for the accumulation of resources, farming expenses and start-up capital of small businesses. Many of them offer money transfers, payment services, and insurance as well. Among them, micro finance institutions are especially important because they outreach poor smallholder farmers lacking access to mainstream banks.

### **Cooperatives as Social Enterprises:**

Co-operatives are also known as **social enterprises**. Social enterprise is for anyone who wants to start a business and considers social and environmental impact as core objectives. Whereas the private sector is held accountable for increasing economic return for shareholders, and the voluntary sector is charged with increasing public benefit, social enterprise is a business model that aims to deliver across a range of economic, social and environmental outputs.

Social enterprise has great potential in 1) ensuring financial sustainability for the voluntary and community sector by identifying opportunities for earned income; 2) increasing first time employment opportunities for those on the margins of the labor market (long-term unemployed and those with physical, learning, or mental health disabilities; 3) assisting entrepreneurs to bring social and environmentally produced goods and services to niche markets and solutions where there is market failure and 4) creating new models of employee ownership and participation in the private sector.

### **Suitability of Co-operatives in Unorganized Sector:**

Many developing countries in Asia have been confronting problems of rural poverty underlain by the low competitiveness of their rural products falling in unorganized sector. A major developmental agenda of these countries is to ensure sustainable income from products/services coming from unorganized sector.

In developing economies poverty is more prevalent in rural areas and rural poverty has emerged as a social problem rather than the urban-rural gap. Entrepreneurship is a locomotive force for economic empowerment in market-led development. Producers of products, commodities and services from

unorganized sectors in developing economies are unfairly positioned in the competitive marketplace and lack critical means to improve their lot.

Cooperatives approach in unorganized sector can find an important role in rural development as a tool for mobilizing competitive entrepreneurship through the utilization of collective endeavors. Notwithstanding having great potential for the alleviation of rural poverty, however, they in traditional forms have arrested local economy. Their mainstreaming in rural development thus is largely dependent on promoting their participation as entrepreneurs in a cooperative form of enterprise.

In market-led development, empowerment lies in being able to thrive in a competitive marketplace where the mastery of entrepreneurship can be key. With limited opportunities to engage in entrepreneurship, producers in unorganized sector are not enabled to gain experiences, which may provide them with increased knowledge, confidence, competence and the development of their capacities and talents. This is reinforced by cultural barriers, which can trap them in feelings and identities of disempowerment and helplessness, low self-confidence, a narrow life perspective, and marginalization from the capacity to build a meaningful life.

There is a strong policy rationale for proactively promoting entrepreneurship in unorganized sector and targeting the rapidly expanding customer friendly market.

Eco-friendly concept is a rapidly growing area and offers strong prospects for the future of rural development. This, combined with the strong largely untapped entrepreneurial potential of rural producers, makes the promotion of their cooperatives in the sector highly promising for contributing both to the economic development of rural areas and to advancement of their empowerment.

### **How to Build a Cooperative ?**

Small producers, especially marginalized groups, can pool their resources to gain access to benefits and economies of scale normally attainable only by larger enterprises. This includes being able to acquire new knowledge and skills for producing high-value products and gain access to business support services. They are also enabled to create an effective formal and informal support network and to increase links with niche or specialty markets.

To establish a rural cooperative, it is important that potential members be aware of and do acknowledge the benefits of products and diversification in terms of raising income and sustainability. A culture of mutual self-help is at the core of

cooperative entrepreneurship. This culture needs to be cultivated among small producers so that they can improve their economic and social situation through cooperation and collective action in producing and processing of value-added products as well as marketing of products.

In terms of the work involved in organizing a cooperative, the following key steps form the basis of the cooperative enterprise.

### Step 1:

*Hold an initial discussion meeting* among those interested in forming a cooperative and discuss the following:

- Interests of members: purpose of creating the cooperative, cooperative's scope, common interest, activities of the cooperative, benefits and advantages of becoming a member.
- Regulations: permission necessary to build and run a cooperative business, required cost, government assistance or favorable credit conditions, internal regulations to be agreed by the founding members.
- Financing: cooperative share of members, number of members, amount of working capital, quantity and quality of produce on a sustained basis by the contribution of member households.
- Facilities: facilities needed such as offices; storage either rented or constructed with own means; equipment needed such as transportation, office equipment, storage facilities, packaging and handling equipment; staff needed such as clerks, accountants, and labourers.
- Marketing: identification of customers, marketing strategy, possible outlets for sale of members produce, major competitors in the region.

### Step 2:

*Prepare the cooperative statutes/by-laws*: the result of the discussions need to be written into cooperative statutes that are the internal legislation of the cooperative.

Model statutes can be referred to as guidelines, but the statutes of the cooperative should be made by full participation of founding members themselves. The statutes are the most important basis for the legal relations among members and of the cooperative and consequently should be as detailed as possible. Contents of the cooperative statutes usually include such main headings as those below:

- Firm (name) and location of business: When naming, the chief function of the cooperative such as marketing, production, multi-purpose, etc should be identifiable along with its location.
- The objectives: In defining the objectives, it is important to consider the root problems and the intended activities because the cooperative carries out activities based on its objectives. They should include a general statement as to the purpose of the cooperative and then detail the goals, through which the cooperative can fulfill its purpose.
- Membership: Members should be aware of their dual role, as both owners and customers of the cooperative. To qualify for registration, cooperatives need to have a certain number of members that varies from country to country. Concerning membership, the statutes include: membership acquisition, termination, transfer of a member's share capital, death of a member, exclusion of a member, arrangements between members and the cooperative, and member's rights and obligations.
- Cooperative organization: A general meeting of the members is the prime organ of the cooperative that makes all basic decisions regarding the structure and operation of the cooperative. The management board is responsible for running the cooperative.

### **Step 3:**

*Hold a conference to establish the cooperative:*

As the final step, a conference needs to be arranged to agree to or amend the statutes and legally establish the cooperative. After the conference, the leaders of the cooperative should apply for the registration certificate with the appropriate authority.

### **Cooperative Advantage / Strengths :**

Cooperatives are people based and value based economic enterprises, founded upon well-defined ethics and principles, which include "concern for community". This dual (social + economic) character is unique to cooperatives, which makes them the ideal and in fact, the only vehicle to ensure equitable distribution.

They have the flexibility to fit into any political system while reinforcing national commitments for equity, democracy and good governance.

The cooperative sector has an established, institutionalised network right from the primary village level cooperatives to their secondary and tertiary federations at district, state and national levels. Hence they have the ability to reach the

unreachable. Through direct contact with members they can identify the most needy.

Cooperatives are the only means to bring the poorest segments of society into an organizational fold as legally recognized entities, providing opportunities for employment and better income along with the needed support services.

They serve as a link between policy makers in government and the ultimate beneficiaries at the grassroots (e.g. farmers' cooperatives), promoting social dialogue.

Cooperatives are member based, democratically managed institutions bound by their own bylaws and systems of audit etc., ensuring transparency and accountability.

### **Co-operative Weaknesses/Constraints :**

Lack of professional management

Lack of resources and disproportionate allocation of resources.

Wide disparities exist between primary, secondary and tertiary levels of cooperatives. The primaries at grassroots remain small and weak structures while their secondary federations are better off and the tertiaries at apex level are the strongest.

Lack of conceptual clarity and confusion regarding the roles of government and cooperatives in poverty reduction.

Political interference, with government using cooperatives as its own agency.

### **Roles of different tiers:**

#### **National Level Cooperatives**

##### **Short Term Role:**

Document and disseminate success stories of good cooperatives, as illustrative proof of the useful role of cooperatives in poverty alleviation and their potential use in the PRSP process.

Sensitise member cooperatives on the concept of Decent Work, the poverty eradication initiative in the country and of their potential role in the process (through district, state, national workshops).

Review the training system and conceptualize training capsules for cooperative leaders, managers, primary members, employees, government officials. Develop suitable modules or adapt existing ones.

### **Medium Term Role:**

Influence government to include cooperative sector and concerned ministries in the PRSP process, through consultations.

Undertake training of grassroots cooperatives towards strengthening their capacities.

Provide required financial support to grassroots primary cooperatives.

Formulate projects for micro-enterprise development

Develop a mechanism for social audit.

Lobby for a progressive National Policy on Cooperatives and legislation (based on ICA Statement of Cooperative Identity and ILO Recommendation No. 193 on Promotion of Cooperatives)

### **Long Term Role**

Support grassroots cooperatives in implementation process.

Increase the cooperative network through increasing membership and new cooperatives.

Allocate resources for member education and financial support to the grassroots.

Improve upon support services to the primaries, through strengthening forward and backward linkages, marketing support.

Strengthen cooperation among cooperatives. (e.g. consumer cooperatives could provide a market for producer cooperatives).

Assist governments in the formulation of a progressive National Policy and legislation.

### **Secondary Federations**

### **Short term**

Initiate awareness on the need for restructuring and revitalization of grassroots cooperatives

### **Medium term**

Undertake restructuring

### **Long Term**

Provide forward and backward linkages, and required support services to their member primary cooperatives.

Strengthen cooperation and networking among cooperatives

### **Primary Cooperatives**

#### **Short term**

Review membership  
Identify the poorer sections  
Undertake needs identification

#### **Medium Term**

Develop a Business Development Plan (BDP)  
Mobilize own resources through member savings (personal stake holding)  
Initiate group loan system (to replace the traditional money lender system)

#### **Long Term**

Implement the BDP  
Undertake management of own resources  
Strengthen linkages with federation for support services.

### **Role of Government**

Create an enabling policy and legislative environment, towards deregulation and greater autonomy.

Allow cooperatives to manage their own profit allocations for their development, instead of the Registrar.

Enable cooperatives to develop their own support services such as HRD, financial services, audit, etc.

Introduce social audit