Engaging Co-operatives in Addressing Local and Global Challenges:

***The Role of Co-operatives in Generating Sustainable Livelihoods*[1]**

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Pages: 7. Line spacing: 1.5. Words: Paper (2,784), Abstract (165)

Abstract

The thrust of this paper is that the Co-operative business model is more amenable than the traditional investor-owned enterprises and the individually-owed businesses in securing sustainable livelihoods for youth and informal sector workers due to its three main unique aspects that include member-ownership, member-control and member-use. The paper argues that sustainable livelihood is about placing people, particularly rural poor people, at the centre of a web of inter-related influences that affect how these people create a livelihood for themselves and their households. It presents the sustainable livelihood approach (SLA) as a way to improve understanding of the livelihoods of poor people, drawing on the main factors that affect poor people's livelihoods and the typical relationships between these factors. The central argument of this paper is that for many centuries now Co-operatives have had significant impact in addressing both local and global challenges and that it has tremendous potential to address the ongoing challenges to youth employment and creating more secure livelihood prospects for informal economy workers.

A Co-operative 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 (ICA, 1995).

Co-operatives promote the fullest possible participation in the economic and social development of all people, including women, youth, older persons, persons with disabilities and indigenous peoples, are becoming a major factor of economic and social development and contribute to the eradication of poverty (UN, 2010)

There are many commonalities as well as many differences between the Co-operative business

[1] A Conference Paper presented the Global Forum: Co-operatives on Harnessing the Co-operative Advantage to Build a Better World held in Addis Ababa, Ethiopia, 4-6 September 2012. Dr. Gicheru is currently the Acting Principal of the Co-operative University College of Kenya and a former Board Member of ICA.

model and other business models. It is these common and different features that eventually determine the economic success, effectiveness and sustainability of different types of enterprises. The Co-operative business model is unique and distinct from other business models in three main areas: ownership, governance, and sharing benefits. Unlike other business models, a Co-operative enterprise is member-owned, member-controlled and member-used. Ownership, control and utilization are practiced within the values and principles of democracy, equality and equity. The criteria for assessing a true Co-operative enterprise is therefore to ask: is it owned by its users, is it controlled by its owners, is it used by or do its benefits go mainly to its owners?

This paper seeks to discuss the role of Co-operatives in promoting and enabling opportunities for sustainable livelihoods, with particular emphasis on their role in addressing youth employment and providing greater income security for informal economy workers. In doing so, the paper will endeavour to propose ways to strengthen these roles through the effective engagement of relevant stakeholders such as governments, the cooperative movement and international organizations. To do this, the paper will attempt to answer three key questions: (i) what aspects of the cooperative business model make it more or less amenable than traditional investor-owned and individually-owned business, in securing sustainable livelihoods? (b) What role does or can co-operatives play in addressing the on-going challenges to youth employment? (iii) What advantages does the cooperative model hold in creating more secure livelihood prospects for informal sector workers?

Before attempting these key questions, let us understand what sustainable livelihoods is all about and what a sustainable livelihood approach means. In the context of this paper, the concept of sustainable livelihood is about placing people, particularly rural poor people, at the centre of a web of inter-related influences that affect how these people create a livelihood for themselves and their households (IFAD, 2012). IFAD argues that closest to the people at the centre of the framework are the resources and *livelihood assets* that they have access to and use: including natural resources, technologies, their skills, knowledge and capacity, their health, access to education, sources of credit, or their networks of social support. The extent of their access to these assets is strongly influenced by their *vulnerability context*, which takes account of trends (for example, economic, political, and technological), shocks (for example, epidemics, natural disasters, civil strife) and seasonality (for example, prices, production, and employment opportunities). Access is also influenced by the prevailing social, institutional and political environment, which affects the ways in which people combine and use their assets to achieve their goals. These are their *livelihood strategies*. People are the main concern, rather than the resources they use or their governments.

On the other hand, the sustainable livelihood approach (SLA) is a way to improve understanding of the livelihoods of poor people, drawing on the main factors that affect poor people's livelihoods and the typical relationships between these factors. SLA is used to identify the main constraints and opportunities faced by poor people, as expressed by themselves. SLA has seven guiding principles that include (i) being people-centred (ii) being holistic (iii) dynamic (iv) building on strengths (v) promoting micro-macro links (vi) encouraging broad partnerships (vii) aiming for sustainability. Sustainability is important if poverty reduction is to be lasting.

Perhaps a review of the global significance of Co-operatives is necessary before we tackle the key questions that underpin this paper. For many centuries now Co-operatives have had significant impact in addressing both local and global challenges by contributing significantly towards, *inter alia,* poverty reduction, employment creation, peace and social cohesion, and environmental management.

A study done by ICA in 2007 revealed that the top 300 global co-operatives alone have a combined turnover of US $1.1 trillion, that Co-operatives employ over 100 million people (more than multinational corporations) and contribute to increased agricultural productivity, expanded access to financial services and critical socio-economic development (ICA, Global 300 Report, 2007. The study also revealed that, besides their major contribution to household incomes and social stability, Co-operatives make a significant contribution to national economies including around 45% of GDP in Kenya and 9% in Vietnam.

Further studies show that, much more than other forms of business organizations; Co-operatives help create more equitable growth by making markets work better for poor people, by generating economies of scale, increasing access to information, and improving bargaining power. Co-operatives help tackle rural poverty by increasing the productivity and incomes of small scale farmers by helping them collectively negotiate better prices for seeds, fertilizer, transport and storage. Co-operatives expand poor people's access to financial services, including credit savings and in some cases insurance and remittances. These services can support enterprise start-up and expansion; enable the risk taking that can lead to increased profitability; and reduce vulnerability by allowing the poor to accrue savings, build assets and smooth out consumption. Co-operatives provide a range of services such as health care, housing, and utilities such as water and electricity. Co-operatives have been successful in expanding access to water and electricity for poor people and reducing wastage from illegal diversion of utilities.

Co-operatives can provide an opportunity for self determination and empowerment of poor people because they foster a culture of good citizenship and enable their members to have a voice and participate in a democratic process, thus having empowering development effects beyond their economic benefits. Co-operatives can help with conflict resolution, peace-building, social inclusion and social cohesion because they bring together people of different religious, ethnic and political groups they can build trust and solidarity leading to greater social stability. This has worked well in post-conflict countries of Bosnia, East Timor, Lebanon, Macedonia, Mozambique, Nepal and Rwanda.

The International Co-operative Alliance (ICA), has ranked Kenya, number seven in the world and, number one in Africa, in terms of the number, size and contribution of co-operatives to development. The contribution of co-operatives to the GDP is estimated to be 45 per cent while, on national savings and deposits, the contribution is 31 per cent. Further, cooperatives have a commanding market share for instance in coffee (70%), dairy (76%), pyrethrum (90%) and cotton (95%).The turnover for the whole co-operative sector, in 2007, was Ksh24.3billion (USD 323.4 million) out of which, Ksh14.4billion (USD$192 million) and Ksh8.4 billion (USD$112 million) were contributed by the SACCOs and the agricultural cooperatives, respectively. 8 out of 10 people in Kenya benefit directly or indirectly from Co-operatives as member-owners, employees, elected leaders, dependants of co-operators and operators of secondary services that are used by Co-operatives.

The growing stature of the Co-operative form of enterprise on the global stage is perhaps captured in the UN General Assembly (2009) when, in declaring 2012 the International Year of Co-operatives, noted that Co-operatives promote the fullest possible participation in the economic and social development of all people, including women, youth, older persons, persons with disabilities and indigenous peoples, are becoming a major factor of economic and social development and contribute to the eradication of poverty.

With this background, let us go back to each of our three key questions starting with the aspects of the cooperative business model that makes it more or less amenable than traditional investor-owned and individually-owned business, in securing sustainable livelihoods. Seven aspects of the cooperative business model make it more amenable than traditional investor-owned and individually-owned business, in securing sustainable livelihoods. These are: (i) Co-operatives are body corporate that enjoy legal protection whereas traditional investor-owned and individually-owned businesses may not and are therefore exposed to more risks of loss (ii) Co-operatives are jointly-owned enterprises and therefore enjoy synergy from their diversity of membership (iii) Co-operatives enjoy economies of scale through shared services while traditional investor-owned and individually-owned businesses carry their burdens individually (iv) Co-operatives provide social inclusion for people with diverse abilities but common interests due to their principle of open and voluntary membership whereas traditional investor-owned and individually-owned businesses tend to focus on only those who have ability to help themselves without the support of people with common needs (vi) Co-operatives raise the necessary start-up and working capital from members or banks while traditional investor-owned and individually-owned businesses find it much more difficult to raise capital from individual sources and banks (vii) Co-operatives often have the capacity to employ specialized staff and opportunity to elect capable leaders while the management of traditional investor-owned and individually-owned businesses depends mainly on the capacity of one person: the owner-investor.

In discussing the role that Co-operatives do or can play in addressing the on-going challenges to youth employment, it is important to discuss who youth are. Youth is used to describe young people who have attained legal age and have a legal capacity to enter into contractual relationship with other people such as transacting business. The age bracket for youth varies from country to country depending on law, tradition and custom. In traditional societies, for example, a boy or girl who is married or has a child is considered by society and self as an adult no matter the age. In modern Kenya, the age bracket for youth is from 18 to 30 years and constitute about 75% of the total population. The Kenya National Youth Policy recognizes the country's youth as constituting the largest human resource and identifies 8 priority strategic areas of intervention to support youth create sustainable livelihoods: (i) employment creation (ii) health (iii) educating and training (iv) sports and recreation (v) environment (vi) arts and culture (vii) youth and media, and (viii) youth empowerment and participation.

One of the key strategies for the cooperative movement and the government in Kenya to address the on-going challenges to youth employment is the mobilization of youth to establish various types of cooperatives. The cooperatives that are youth-friendly include, but are not limited to: Savings and Credit (SACCOs), transport, worker-based Co-operatives in areas of ICT, service industry and consumer. The Government is currently promoting Youth SACCOs that will among other things provide youth friendly products, create ownership of the process and popularize and institutionalize the culture of savings supported through various government funds such as the Youth Enterprise Development Fund (YEDF) and Women Enterprise Development Fund (WEDF), and Constituency Fund Enterprise Scheme (CFES) (MOCD&M,

2011). Other economic activities that youth have shown great interest in besides SACCOs is agro-processing, poultry, horticulture, handicrafts, tree planting including herbal trees like moringa oleifera. Perhaps the most important support youth can be given in Kenya is to map out these activities, among others on the ground, and try to spur investments, using the value chain approach (MOCD&M, 2011)

Data on youth participation in Co-operatives today in membership, employment and leadership is not available but it could be around 25%. Since Co-operatives in Kenya have created about 250,000 jobs (Wanyama, 2009) it may be safely estimated that Co-operatives in Kenya have created about 60,000 jobs.

Let us address the question on the advantages that the cooperative model holds in creating more secure livelihood prospects for informal sector workers. But first let us ask ourselves what the informal sector is and who informal sector workers are.

Informal sector is defined differently by different people. The World Bank (www.worldbank.org) defines the informal sector in terms of two types of labour market activities which are (a) legal survival activities such as casual jobs, temporary jobs, unpaid jobs, subsistence agriculture, multiple job holding, and (b) illegal activities that include unofficial business activities and underground activities that are characterized by tax evasion, avoidance of labor regulation and other government or institutional regulations, no registration of the company, crime, corruption - activities not registered by statistical offices.

The difference between formal and informal sectors is mainly in terms of formal recognition and regulation and lack of it respectively (www.reference.com). The informal sector refers to parts of the economy that are not taxed, regulated, monitored or included in the gross national product.

The informal sector is also seen as an oxymoron - on one hand it is an unorganized 'nuisance' sector whose members, for example, do not pay any form of tax; on the other, it provides jobs and increases incomes of the most vulnerable groups in a city - the very low-income group (http://www.gdrc.org/informal/index.html). The World Bank (www.worldbank.org) argues that the informal sector plays an important and controversial role. It provides jobs and reduces unemployment and underemployment, but in many cases the jobs are low-paid and the job security is poor. It bolsters entrepreneurial activity, but at the detriment of state regulations compliance, particularly regarding tax and labor regulations. It helps alleviate poverty, but in many cases informal sector jobs are low-paid and the job security is poor. The size of the informal labor market varies from the estimated 4-6% in the high-income countries to over 50% in the low-income countries. Its size and role in the economy increases during economic downturns and periods of economic adjustment and transition.

The World Bank (www.worldbank.org) notes that the concept of the informal sector was introduced into international usage in 1972 by the International Labor Organization (ILO) in its Kenya Mission Report, which defined informality as a "way of doing things characterized by (a) ease of entry; (b) reliance on indigenous resources; (c) family ownership; (d) small scale operations; (e) labor intensive and adaptive technology; (e) skills acquired outside of the formal sector; (g) unregulated and competitive markets". Since that time, many definitions were introduced by different authors and the ILO itself. The ILO/ICFTU international symposium on the informal sector in 1999 proposed that the informal sector workforce can be categorized into three broad groups: (a) owner-employers of micro enterprises, which employ a few paid workers, with or without apprentices; (b) own-account workers, who own and operate one-person business, who work alone or with the help of unpaid workers, generally family members and apprentices; and (c) dependent workers, paid or unpaid, including wage workers in micro enterprises, unpaid family workers, apprentices, contract labor, home-workers and paid domestic workers.

From this analysis, it is clear that informal sector workers in both rural and urban areas are faced with a myriad of common socio-economic challenges that include, but are not limited to: (a) low level of technical skills (b) low level of education and knowledge (c) poverty (d) low wages (e) poor housing (f) low access to goods and services to satisfy basic needs, and (g) poor living conditions in inner-core and peri-urban areas with poor social amenities, sanitation and waste disposal systems. The Co-operative model holds several advantages for creating secure livelihood prospects for informal workers, *inter alia*,

(a) Creating jointly owned enterprises (Co-operatives) that they own and control in a way that matches their level of technical skills and knowledge that many employers may not find desirable. These may include consumer Co-operatives through which informal sector workers can provide themselves with goods and services that they need at places and prices that they themselves determine;

(b) Engaging in joint projects through the Co-operative model to reduce poverty levels and provide basic needs and create wealth. These may include Savings and Credit Co-operatives (SACCOs) to save regularly and be able to borrow credit on terms that members themselves decide;

(c) Establishing workers Co-operatives where informal workers with common skills and interests such as carpentry, cleaning, security guarding, etc can come together to provide services to the market. Such workers Co-operatives can give informal sector workers leverage to compete in the market place in the provision of general services and provide themselves with decent jobs and regular income;

(d) Housing Co-operatives could be the answer to the rural and urban informal sector workers who are often faced with poor and expensive housing in slum areas without proper sanitary conditions and infrastructure. Already NACHU is assisting informal sector workers in this respect within the city and peri-urban areas of Nairobi in Kenya (www.nachu.org)

(e) Informal sector workers can establish and join services Co-operatives and production Co-operatives to improve themselves with appropriate social amenities, sanitation and waste disposal systems while making money at the same time. For example, informal sector workers can establish and run a waste disposal Co-operative, a recycling Co-operative or a Co-operative that processes waste material into useful products such as charcoal, furniture or art.

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