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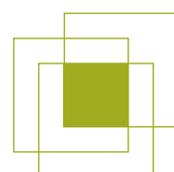
# Organization, Representation and Dialogue



*Information meeting in a cooperative, Côte d'Ivoire.*

## 5.4 COOPERATIVES: A STEPPING STONE OUT OF INFORMALITY

■ Cooperatives have been empowering informal economy actors through the pursuit of economic activities combined with social goals. Cooperatives have the potential to advance the concept of moving out informality because they are not only an effective mechanism to provide economic and social security for rural and urban informal economy actors, but because they have a record of transforming marginal activities into legally protected work. Social economy enterprises and organizations, including cooperatives, mutual benefit societies, associations, social enterprises and some foundations constitute a bridge between the informal and the formal, the rural and the urban, the local and the global and the economic and the social.



## KEY CHALLENGES

- **Legal and policy barriers to the operation of cooperatives**
- **Problems of exclusion**

■ **Legal and policy barriers to the operation of cooperatives.** Over the last ten years, there has been a marked increase in the number of social economy enterprises and organisations, such as cooperatives, community based organisations, mutual help organisations and member-owned micro-finance and micro-insurance schemes. While some of these may not be formally registered, they are member controlled, often rooted in the local community and give voice to local producers and entrepreneurs. In Africa, the appearance of new forms of cooperatives has been referred to as the renaissance of the African cooperative movement.<sup>1</sup> Indeed cooperatives are gaining new attention as a democratically-based means of addressing the social and economic exclusion of informal economy actors, as well as an important pathway towards formality. While globalization and the recent financial crisis have created new challenges, cooperatives continue to be vehicles for sustainable incomes and for social and economic development. Where informal economy actors have been able to overcome legal and policy barriers that may exist, they are often able to become registered as legal entities and hence become part of the mainstream economy.

Nevertheless cooperatives still face significant barriers in different countries. Thus, their potential to support the transition to formality is under-utilised. Legal frameworks governing cooperatives can sometimes be an impediment to organization and representation. In some countries, for example, legal entities cannot form cooperatives, rather the law only allows for individuals to form cooperatives. This is to the great disadvantage of these entities, particularly small and medium size enterprises.

■ **Problems of exclusion** Other barriers include high membership requirements, or provisions that implicitly exclude women. For example, laws that admit only one person per household result in women's exclusion, since males may therefore dominate cooperative membership; other laws in which married women are considered minors or where women are prevented from inheriting deceased husband's investments in the cooperative are clearly exclusionary provisions.

The profound changes in the system of production and the deregulation of the markets<sup>2</sup> have created both new opportunities and new challenges for cooperatives to participate in world markets. Ethical trade initiatives have favoured the formation of cooperatives by small producers and have had positive impacts. There is an increasing consensus on the part of governments, employers and trade unions that cooperatives are a relevant mechanism to create sustainable and formal employment and income opportunities.

### What are cooperatives?

Cooperatives are a means by which economic actors can pool their needs and resources in order to achieve economies of scale and obtain better prices for inputs, bigger markets, common services, better consumer goods and greater legal protection. Under paragraph 2 of The Promotion of Cooperatives Recommendation 2002 (No.193) a cooperative is defined as an 'autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise'.

Cooperatives are present in virtually all sectors, including agricultural, credit and savings, consumer, housing, workers' and entrepreneurs' cooperatives. Informal economy actors are mainly present in agriculture, vending, services, construction, transport and money lending, and these are the sectors where the bulk of cooperatives are to be found. They range in size from large-scale undertakings in the formal economy to small and micro-enterprises of a very diverse nature.

<sup>1</sup> For more information see Resources section to access: Develtere, Patrick, Pollet, Ignace & Wanyama, Fredrick (eds) "Cooperating out of poverty: the renaissance of the African cooperative movement", ILO and World Bank Institute, 2008

<sup>2</sup> Cf Henry, Hagen, Retos y oportunidades de la globalización para las cooperativas y el marco legal cooperativo, in: CIRIEC 18/2007, 124ff



*Woman leader of a rural cooperative, Madras, India.*

- Cooperatives and the transition to formality
- The ILO's work supporting cooperative development
- Diverse forms of cooperatives
  - Agricultural cooperatives for input supplies and marketing
  - Financial services cooperatives
  - A vehicle for women producers
  - Enhancing marketing
  - Workers' cooperatives
- Healthcare provision through cooperative clinics
- Ethical and fair trade initiatives

■ **Cooperatives and the transition to formality.** Cooperatives have an important role to play in the transition from informality to formality. While informal economy actors are either operating outside the formal reach of the law, or are not covered in practice, cooperatives can be an accessible method to gain legal recognition, thereby enhancing their economic efficiency and security, and thus providing incentives for risk-taking, accessing credit and other services.

● Legal recognition permits cooperatives to access appropriate tax and accounting regimes and benefit from social security coverage

Cooperatives are an easily accessible type of enterprise because capital requirements for registration are minimal, and skills deficits can be addressed by information, training and education programmes. Registration means legal recognition that permits cooperatives to access appropriate tax and accounting regimes and, thus, benefit from social security coverage.<sup>3</sup> Through pooling resources, negotiating power can be increased. The cooperative system of democratic member control (one-member/one vote regardless of the amount of equity held) and the equitable sharing of cost, risk and benefit, can empower and give voice to members as well as encourage social dialogue. The promotion of Cooperatives Recommendation 2002 (No. 193) makes reference to the role that cooperatives can play in promoting transition to formality. See box below.

### Promotion of Cooperatives Recommendation, 2002 (No.193)

In 2002 the International Labour Conference adopted a Recommendation which provides a renewed framework for the growth of cooperatives into the 21st century. It represents the only international governmental legal instrument on cooperatives and provides guidance for member states to develop new legal and policy frameworks. It recognises that not only can cooperatives provide a means to address the challenges and pressures of globalisation and ensure a more equitable distribution of its benefits, but also that they can play a critical role in the transition to formality. Under paragraph 9 it states:

<sup>3</sup> For more information see Henry, Hagen, Guidelines for Cooperative legislation, 2nd ed., Geneva; ILO 2005, p. 45.

*“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 of economic life.”*

Cooperatives are based on values including self-help, self-responsibility, democracy, equality, equity and solidarity; as well as ethical values of honesty, openness, social responsibility and caring for others. The text integrates the definition, values and principles of the Statement of Co-operative Identity 1995 of the International Co-operative Alliance. It also encourages governments to provide an enabling environment for the promotion of cooperatives including equal treatment with other types of enterprises. Roles and responsibilities for the ILO social partners and cooperative organizations are also outlined.

Since the adoption of the Recommendation many countries or country regions have revised their cooperative laws or developed new policies, using Recommendation 193 as a basis. These countries include Colombia, Croatia, Ethiopia, Kyrgyzstan, Lesotho, Mozambique, South Africa, Swaziland, Turkey and Uganda. The European Council Regulation (EC) No 1435/2003 on the Statute for a European Cooperative Society (SCE) takes into account ILO Recommendation 193, and in Latin America a Framework model law for the region has been adopted by ICA Americas in accordance with the Recommendation (Ley marco para las cooperativas de América Latina). Uruguay has been one of the first countries to develop a new law based on this model law. L'Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA) has also adopted a Uniform Act on Cooperatives (Acte uniforme relatif aux sociétés coopératives).

Source: Promoting Cooperatives: A Guide to ILO Recommendation 193 ILO, ICA, the Cooperative College, Manchester, 2004  
[http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_ent/---coop/documents/instructionalmaterial/wcms\\_160221.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/instructionalmaterial/wcms_160221.pdf)

■ **The ILO's work supporting cooperative development.** The ILO Cooperative Branch contributes to integrating informal economy actors into the formal economy mainly by providing advice on cooperative policies and laws to facilitate the recognition of cooperatives as legal persons with equal rights and obligations. This includes guidance on participatory policy and law making. It advocates for an understanding of cooperative law in its broadest sense, including for example taxation of cooperatives, labour law in cooperatives, accounting standards and competition law. Given the progress made in changing legal frameworks, the emphasis is shifting towards enhancing implementation strategies.

The ILO works with governments to assist them, in collaboration with the social partners and cooperative organisations, to create an enabling environment for informal economy actors to establish cooperatives. Examples of technical assistance include:

- Ensuring that the cooperative law exists in local languages;
- Drawing up simple guides concerning cooperative law;
- Drafting cooperative laws and by-laws and regulations designed to simplify cooperative structures;
- Providing policy support to introduce the cooperative approach to socio-economic inclusion of informal economy actors in Roadmap Global Jobs Pact, PRSPs, Decent Work Country Programmes.

Cooperatives, in line with the self-help principle, can provide social services coverage for members, either by setting aside money for access to health care and pensions, or by taking out a group insurance, benefiting from their greater negotiating power and assets. For example, the ILO Cooperative Branch collaborated for several years with the Regional Office of the International Co-operative Alliance of the Americas on the revision of the 1988 Framework model law on cooperatives for Central and South America. The 2008 revision of the text provides, inter alia, for rules concerning the setting aside of parts of the surplus/profits for special funds to be used for social services.<sup>4</sup>

The Framework model law on cooperatives will be an important guide to governments in Latin America.

## The UN International Year of Cooperatives 2012

On December 18, 2009 the General Assembly of the United Nations proclaimed 2012 as the International Year of Cooperatives (GA Res. A/RES/64/136). The main objectives of the International Year of Cooperatives (IYC) are (1) the promotion of cooperatives and (2) raising awareness on cooperatives.

### UN GA Resolution A/RES/64/136, Operative Paragraph 3

“Encourages all Member States, as well as the United Nations and all other relevant stake-holders, to take advantage of the International Year of Cooperatives as a way of promoting cooperatives and raising awareness of their contribution to social and economic development;”

Member States are called upon to set up National Committees which are to bring together all interested stakeholders, including ILO constituents and cooperative organizations. They have also been requested to designate focal points for the IYC for national activities.

For more information access: <http://social.un.org/coopsyear/>

ILO technical cooperation projects also encourage informal economy workers to formalise through the establishment of cooperatives<sup>5</sup>. One example is the SYNDICOOP project, a joint initiative between the International Cooperative Alliance, the ITUC and the ILO to strengthen organising strategies among informal economy workers and to improve employment opportunities, income and working conditions, covering Kenya, Rwanda, the United Republic of Tanzania, South Africa and Uganda. The programme, funded by the Netherlands Partnership Programme, was implemented over the period 2004-2006. It recognised the many linkages between cooperatives and trade unions. It has adopted a collaborative approach based on mutual support. The project reinforced partnerships between trade unions and informal economy actors and increased awareness of the role of trade unions and the benefits of collective representation. National governments are committed to continuing to support these initiatives. A user-friendly handbook for trade unions and cooperatives about organising workers in the informal economy was produced.<sup>6</sup>

4 Cf Article 42 of the 2008 Model framework law (Ley Marco para las cooperativas de America Latina)

5 Projects such as ACOPAM, COOPNET, COOPREFORM, INDISCO, SYNDICOOP, COOPAFRICA, SYNDICOOP are a direct follow-up to the 2002 International Labour Conference. Cf Resolution and Conclusions concerning decent work and the informal economy, International Labour Conference 2002, Geneva, ILO 2002

6 For more details see Resources section to access: Smith, Stirling, Let's organize! A SYNDICOOP handbook for trade unions and cooperatives about organizing workers in the informal economy; Joint publication of the ILO, ICA and the ICFTU

■ **Diverse forms of cooperatives.** Cooperatives can take many forms. They exist to provide the best possible service at the lowest possible cost to their members and also provide employment and income opportunities. While agricultural cooperatives for marketing and input supplies are the most well-known, below are a few examples of other successful cooperatives which assist informal economy actors:

- Savings and credit cooperatives and other financial cooperative organizations provide access to finance , often catering specifically to the needs of the informal economy actors, in particular women;
- Workers’ cooperatives providing job creation , including worker take-overs of enterprises in the form of cooperatives;
- Health cooperatives providing health care and other social services;

● Agricultural cooperatives enable small-scale farmers to increase their incomes and to improve their livelihoods

● **Agricultural cooperatives for input supplies and marketing** Agricultural cooperatives enable small scale farmers to increase their incomes and improve their livelihoods. One example is in Rwanda, where the post-genocide government has made a concerted attempt to encourage cooperative formation. The cooperatives laws provide for regulation, registration and monitoring, as well as conflict settlement. In 2004, the rice-growers’ cooperative had 40,148 members and produced 20,800 tonnes of white rice, approximately 35% of national demand. Each cooperative member pays an initial amount and contributes with an annual levy depending on the size of the land-holding. The cooperative provides technical support, maintenance of common infrastructures, such as water channels, maintains a plant nursery, and provides input loans and marketing support. The cooperative also provides a mutual health fund.

In Kenya, cooperatives are one of the pillars supporting economic growth. Sixty three percent of Kenyans derive their livelihoods directly/indirectly from cooperative based activities. In 2007 cooperatives mobilized 31 percent of the national savings. As an integral part of the Government strategy of wealth creation and poverty reduction, cooperatives activity cut across all the sectors of the national economy that include agriculture, finance, housing, transport, building and construction, manufacturing and distribution trade. Cooperative activities concern mainly the financial sector (44 percent) and the agricultural sector (38 percent).

The cooperative movement is well structured with more than 11.000 registered Cooperative Societies in 2007. The Kenya National Federation of Co-operatives is the national apex cooperative organization and 8 other National cooperative organizations/institutions are bringing together cooperatives per main activity such as bank, insurance, college, etc. Cooperatives in Kenya accounts for at least 7 million members.<sup>7</sup>

● Informal economy actors who cannot access financial services through the commercial banking system can use savings and credit cooperatives and other financial cooperative organizations

● **Financial services cooperatives** Informal economy actors and marginalised groups who cannot access financial services through the commercial banking system can use savings and credit cooperatives and other financial cooperative organizations. There is renewed interest in savings and credit cooperatives and other financial cooperative organizations, particularly as a result of the global banking crisis. The World Bank has recently noted that “financial cooperatives and their networks are re-emerging as promising institutions in rural finance in many countries”.<sup>8</sup>

7 See Resources section to access: Develtere, Patrick, Pollet, Ignace & Wanyama, Fredrick (eds) “Cooperating out of poverty: the renaissance of the African cooperative movement”, ILO and World Bank Institute, 2008, pp 91-127 and <http://www.ilo.org/public/english/employment/ent/coop/africa/countries/estafrica/kenya.htm>

8 For more information see Resources section to access World Bank, World Development Report 2008

- **A vehicle for women producers.** Cooperatives are proving to be an important way for women producers to organize themselves, as well as to increase their bargaining power and incomes. In India, the Self-Employed Women's Association (SEWA) is one of the most successful examples of a multifaceted organisation which has specifically addressed the needs of women working within the informal economy. Swashrayi Mahila Sewa Sahakari Bank is SEWA members' largest cooperative, the first of its kind in India. The SEWA bank is owned by self-employed women. Policies are formulated by their own elected Board of women workers. The bank is run by qualified managers accountable to the Board. SEWA bank was established in 1974 with 4000 members each of whom contributed Rs.10. Today there are 93,000 active depositors. Members initially raised the issue of the need for credit in order to decrease their dependence on money-lenders and traders, to enhance their businesses, build up assets in their own name, for children's education, and for family emergencies. The bank now has Reserve Bank of India clearance.

Organizations such as SEWA in India are proving to be an important way for poor women producers in the informal economy to organise themselves, increase bargaining power and incomes

SEWA has also assisted in establishing a wide range of other types of cooperatives, including artisans' cooperatives, dairy cooperatives, service and labour cooperatives and trading and vending cooperatives. Women provide the share capital for the cooperatives and obtain employment from them. The service cooperatives provide primary health care and child care to self-employed women in the informal economy and their families. Another initiative includes village-based savings and credit groups which are less formal structures allowing women to learn to manage their own capital. They allow for assets to be built up for the first time. The village groups have formed their own district-level association for mutual support and advice.<sup>9</sup>

- **Enhancing marketing.** The ILO COOP<sup>AFRICA</sup> programme supports an innovative project to assist fishermen cooperatives in the Lake Victoria region in Kenya and enhance employment opportunities. While the area is well served by mobile phone networks, the fishermen's cooperatives have not used this technology to their advantage. As a result fish pricing is not transparent, marketing costs are high and there are heavy post-harvest losses. With the support of the Kenya Marine and Fisheries Research Institute, cooperative members in 150 designated sites have been provided with mobile phones and relevant training so that prices, fish quantities, storage facilities, and other data can be communicated. The project is expected to result in significantly increased incomes and employment possibilities for the fishing communities.<sup>10</sup>
- **Worker' cooperatives.** Workers' cooperatives are enterprises owned and controlled by their members who are often either unemployed or threatened with redundancy and wish to create jobs for themselves. For example, during the earlier economic crisis in Argentina, there were a number of initiatives to take over companies which had become economically unviable, in order to continue production and maintain employment. "Fábrica recuperada", a "National Movement of Recovered Factories" was formed. The "recovered factories" were re-organised as cooperatives, with statutes and licences to operate.<sup>11</sup>

9 For more information see [Http://www.sewa.org](http://www.sewa.org)

10 For more details on this initiative see <http://www.ilo.org/public/english/employment/ent/coop/africa/download/kmfri.pdf> and ILO Coop News 2,2009

11 For more details see Resources section to access: Specialised Meeting of MercoSur Cooperatives, Montevideo, August 2005

In Nepal a trade union confederation has founded a health cooperative for informal economy workers

■ **Health care provision through cooperative clinics.** Cooperatives can significantly increase access of communities to healthcare and other forms of social services. In Nepal, GEFONT, a confederation of 15 national trade union federations representing some 350,000 members, organises workers in sectors such as agriculture, textiles, tourism, rickshaw pulling, transport and construction. In 2000, GEFONT founded a health cooperative which aims to provide affordable health care and clinical services to its members in both the formal and informal economy. Members pay a monthly premium to the Health Cooperative Fund which gives them access to primary health care and the Kathmandu Model Hospital, which is also founded and operated as a cooperative by the Public Health Concerned Trust. GEFONT aims to extend health protection to all its workers within the next five years and, towards this end, is now forming workers' health cooperatives across the country with the support of the ILO.<sup>12</sup>

■ **Ethical and fair trade initiatives.** Ethical and fair trade initiatives are becoming increasingly wide-spread and from a relatively small base are now part of mainstream commercial trade. Networks of alliances between companies or not-for-profit organisations in industrial countries and producers in developing countries seek to improve trading and production conditions and access to international markets, often through the formalisation of cooperatives and licensing or certification agreements. The Ethical Trade Initiative has a base code, negotiated and agreed by the founding trade unions, NGOs and corporate members, which refer to the most relevant ILO conventions.

12 For more information see [www.gefont.org](http://www.gefont.org)

This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

### ILO instruments and ILC Conference Conclusions

ILO Promotion of Cooperatives Recommendation, 2002 (No.193)  
<http://www.ilo.org/ilolex/cgi-lex/convde.pl?R193>

### Other instruments

General Assembly. A/64/132. Sixty-fourth session. Item 62 (b) of the preliminary list\*  
 Cooperatives in social development. 13 July 2009.  
<http://www.copacgva.org/publications/un/a64132e.pdf>

### Relevant Publications

Specialized Meeting of Mercosur Cooperatives (RCEM) 2005, Declaration on Cooperatives, Employment and Decent Work, X Plenary Session, Montevideo  
<http://www.cicopa.coop/Cooperatives-and-Decent-Work-in.html>

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Also available in French: Guide de législation cooperative, International Labour Office, Geneva 2006  
[http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_ent/documents/publication/wcms\\_122183.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_122183.pdf)

Henry, Hagen, Cooperatives, Transition to Formality, Law – the Role of the Cooperative Programme of the ILO, (Forthcoming)

ILO COOPAfrica Working Paper series (1-16)

[http://www.ilo.org/empent/WorkingUnits/lang--en/facet--ORG--ED\\_EMP---EMP\\_ENT---COOP--TYP--Publication--2678/WCMS\\_DOC\\_ENT\\_DPT\\_COO\\_EN/index.htm](http://www.ilo.org/empent/WorkingUnits/lang--en/facet--ORG--ED_EMP---EMP_ENT---COOP--TYP--Publication--2678/WCMS_DOC_ENT_DPT_COO_EN/index.htm)

Smith; Stirling: Let's organize: A handbook for trade unions and cooperatives about organizing workers in the informal economy. Joint publication between the ILO, ICFTU and ICA 2006.  
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World Bank 2007, World Development Report 2008: Agriculture for Development, World Bank, Washington.  
[http://siteresources.worldbank.org/INTWDR2008/Resources/2795087-1192112387976/WDR08\\_00\\_FM.pdf](http://siteresources.worldbank.org/INTWDR2008/Resources/2795087-1192112387976/WDR08_00_FM.pdf)

### Tools

Dobson, Denis: Participatory cooperative policy making: a manual. International Labour Office Geneva, 1998. Also available in French Dobson, Denis: Elaboration participative de la politique de développement coopératif : un guide, International Labour Office Geneva, 2000.

ICA/ ILO: Training resource pack on the elimination of hazardous child labour in agriculture Geneva 2009. [http://www.ilo.org/global/What\\_we\\_do/Publications/ILOBookstore/Orderonline/Books/lang--en/docName--WCMS\\_091344/index.htm](http://www.ilo.org/global/What_we_do/Publications/ILOBookstore/Orderonline/Books/lang--en/docName--WCMS_091344/index.htm)

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ICA/ILO: Gender Issues in Cooperatives: An ILO-ICA Perspective. 2 Hours on Gender Issues in Cooperatives - An introductory session on gender issues for cooperative leaders. ILO 1995 <http://www.uwcc.wisc.edu/icic/issues/gender/ilo-ica/overview.html>

ICA/ILO: Leadership Training Manual for Women Leaders of Cooperatives, International Labour Office 2005 [http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---sro-new-delhi/documents/publication/wcms\\_124337.pdf](http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---sro-new-delhi/documents/publication/wcms_124337.pdf)

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**For further information see the website of the ILO Cooperatives unit**  
<http://www.ilo.org/empent/units/cooperatives/lang--en/index.htm>

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### 7. Entrepreneurship, Skills Development, Finance

7.1 Informal enterprises: policy supports for encouraging formalization and upgrading

7.2 Enhancing skills and employability: facilitating access to the formal economy

7.3 Microfinance: targeted strategies to move out of informality

### 8. Extension of Social Protection

8.1 Extending social security coverage to the informal economy

8.2 HIV/AIDs: overcoming discrimination and economic exclusion

8.3 Extending maternity protection to the informal economy

8.4 Childcare: an essential support for better incomes

### 9. Local Development Strategies

9.1 Local development: opportunities for integrated strategies for moving out of informality