



Palestine Economic Policy Research Institute (MAS)

# **Policies to Mobilize Palestinian Cooperative Initiatives**

**Muhannad Hamid**

**2012**



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**The Palestine Economic Policy Research Institute (MAS)**

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- ♦ Evaluating economic and social policies and their impact at different levels for correction and review of existing policies.
- ♦ Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
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## **Foreword**

Contemporary cooperative economy, which emerged in the last quarter of the eighteenth century, has comprised a sustainable, expanding model of economic activity, both in products and services. This mode of economy has resisted economic blows- a backwash of the severe financial crisis that has swept developed economies over the past two decades, during which the cooperative economy model continued to grow, expand and protect cooperatives and their members from degradation and bankruptcy.

This study seeks to identify the causes of recession in the Palestinian cooperative system and practical methods to promote its role in Palestinian economic development. Clearly, development in this sector has failed to contend with growth trends in other countries. Furthermore, the recession this sector has endured during the last decade is at odds with the role this sector assumed in the decades that preceded the creation of the Palestinian National Authority.

Cooperative work in Palestine is deeply rooted in Palestinian popular culture and it has assisted in improving the Palestinian people's ability to survive in their homeland in the face of hostile Israeli policy. Therefore, the advancement of Palestinian cooperative work is critical not only at the socioeconomic level, but also in the context of political struggle for freedom. The cooperative movement (which is based on trust, volunteering, democracy, participation and equality) is a major incubator of the development of all forms of capital: economic, social, human and political. We hope this study will help in enhancing the role of the cooperative sector as an influential lever of national development.

We would like to thank the research team and all participants who reviewed the study and contributed to its development. We would also like to extend our sincere thanks to the Arab Bank for Development in Africa and the Al-Aqsa Fund for funding this study, which is part of the research program of the Palestinian National Authority Research Priorities.

**D. Samir Abdullah**  
**Director General**



## **Executive Summary**

Cooperative initiatives constitute a considerable volume of socio-economic activity in many countries such as the United States, Korea, Brazil and Norway, where such enterprises have penetrated all economic spheres. In developing countries, however, cooperatives are still in their infancy, with many challenges restricting their development; minimizing the benefits that members can acquire from such cooperatives; and undermining their role in domestic development.

The direction of cooperative initiatives in Palestine is identical with their counterparts in developing countries. Even though the Palestinian cooperative movement dates back to the last century- and it has assumed a prominent role in meeting the needs of the community in some areas, it is still impaired by numerous determinants.

This study seeks to reveal the key factors that crumble cooperative movement in Palestine and render it fragile. To this end, the study devises proposals and recommendations that would contribute to the formulation of enabling policies. The study, thus, tries to answer three key questions: First, what are the obstacles and problems that hinder cooperative work and undermine its contribution to domestic growth and development? Second, what influence does the Palestinian social capital have on cooperative work? Third, what are the policies needed to address the problems and improve the performance and effectiveness of the cooperative movement?

The study reviewed a wide array of studies and theories relating to cooperatives in terms of nature, types and relationship to social capital, as well as their role in development and the challenges they face. The study used data from the General Administration for Cooperation in the Palestinian Ministry of Labor. Study tools included case studies of a number of local and international cooperatives as well as interviews with relevant parties.

The study is expected to help fathom the conditions of the Palestinian cooperative work and its relationship to the Palestinian social capital as a parameter for the success of cooperation. In addition, the study examines the problems that restrict the effectiveness of the Palestinian cooperative movement and impede its contribution to development. In accordance, the

paper makes recommendations that can contribute to the formulation of policies that would strengthen the role of the cooperative movement in the Palestinian development.

Cooperatives are embedded in the existing linkages and the societal relations that are represented by the social capital. Challenges to cooperative work are significantly linked to social capital and its performance. The impact of the Palestinian social capital on cooperation is twofold: First, the weak associative social capital hinders establishing cooperation between individuals with different backgrounds. The element of trust is constitutive in cooperative work, and low level of trust between individuals with different backgrounds directly affects the possibility of cooperation among them. Second, the robust social capital reduces profits for non-family members, and thus thwarts the benefits to the community.

In addition to the impact of social capital on the collaborative work, many problems restrain the effectiveness of cooperatives, namely: the individuals' confidence in cooperatives, the role of members and their participation in cooperatives, funding, the relationship between cooperatives and the legal environment. The confidence of individuals in cooperatives is largely reflected on the desire of individuals to apply the collaborative model in various business activities. This is sometimes attributed to the lack of adequate information on the nature of cooperatives and the way they behave. The lack of trust is further worsened by the failures of some existing collaborative initiatives. Unquestionably, the weak interaction between cooperatives and the community reduces the community's interest in such initiatives. Additionally, the confidence in cooperatives diminishes when cooperatives do not stick to the principles of good governance such as transparency and disclosure of information.

The role of members and their participation in cooperatives is a key factor in cooperative enterprises. One of the problems cooperatives face is the members' inadequate participation in the cooperative activities and their lack of commitment to paying their dues. This leads cooperatives to undertake activities and set objectives that do not reflect the needs and interests of all members. The low levels of participation encourages active members to dominate the entire work of a cooperative. Arguably, the poor application of the principles of corporate governance concerning the circulation of management and distribution of roles and tasks minimizes the level of members' involvement, which, in turn, strips cooperatives off their ability to meet the interests of individuals or the community.

Though ensuring funds can maintain the activities of existing cooperatives and increase their effectiveness, the establishment of cooperatives in order to obtain funds clashes with the principles of collaborative work. The result is that cooperatives are upheld by the fees that the members pay to achieve their common interests. Undoubtedly, financing is likely to drive individuals to join cooperatives based on funds rather than on the contributions of members. The ease of access to finances leads to indifference to the management of financial resources and their development. This will ultimately contribute to the failure of cooperatives in achieving objectives, and increase the unsuccessful models in the local community.

Due to the cooperatives' weak representation in trade unions and non-sectoral representation, the level of coordination between cooperatives is minimal, which provokes a limited exchange of experiences between cooperatives and the implementation of joint activities. Besides, this situation curtails the ability of the same-scope cooperatives to be adequately represented before concerned authorities. This squanders the common interest of cooperatives and merely meets the needs of some cooperatives that are represented in trade unions, the percentage of which is scantily 30% of the cooperatives, and this would undermine the other requirements of this sector. .

The legal environment is also problematic in that the governing law is outdated and incompatible with the current changes and developments. For example, the current law does not provide for specific and binding procedures regarding the representation of cooperatives in specialized unions.

These problems have dwindled the effectiveness of the Palestinian cooperative initiatives and restrained their role in development. In order to address these problems and reduce their negative effects, the study recommends:

- ✧ Enacting of a new law or amending the current law so as to respond to the requirements of cooperative governance in line with the developments occurring in collaborative work.
- ✧ Actuating the role of the General Administration for Cooperation in the Ministry of Labor through allocating part of the general budget for cooperative work and increasing support for the departments of Public Administration that provide the guidelines for proper cooperation and the appropriate scopes of work.

- ✧ Nurturing the culture of cooperation through briefing the local community on the cooperative experiences; raising the issue of cooperation in the media; the inclusion of cooperative work in the school curriculum; and applying practical activities for students to encourage them to create cooperatives.
- ✧ Building a detailed database of the Palestinian cooperative movement in order to inform detailed studies on the contribution of cooperatives in the economic and social development; aggrandize networking between cooperatives when inputs match with outputs; facilitate the extension of promising areas; facilitate research into the feasibility of financing cooperatives; and steer funding to certain effective cooperatives that can benefit from financial resources.
- ✧ Having concerned stakeholders (such as the Ministry of Agriculture) involved in order to achieve several goals, including providing technical, logistic support and guidance and counseling to help stalled cooperatives in solving problems of scope of work; avoiding establishing cooperatives that do not reflect an urgent need in the sector; opening up new prospects for the development of cooperatives and areas required at the sector level; and channeling funds to the most feasible areas.