



M A S Palestine Economic Policy Research Institute

Reforming the Cooperatives Sector in Palestine

Fathi Srouji

2015

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- ♦ Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
- ♦ Disseminating up-to-date socio-economic information and research results.
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EXECUTIVE SUMMARY

The objective of this study is to contribute to the reform and development of the cooperative sector in Palestine. In order to achieve this general goal, the study expounds on the current state of the cooperative sector and its objectives, activities and development, in addition to reviewing the available related literature on the legal framework, regulatory procedures, networks supporting the sector, and other issues that have an impact on the development of cooperatives. Additionally, this study makes a comparison between the state of the cooperative movement in Palestine and in other countries which have a well-developed cooperative sector. This is done in order to benefit from these countries' experiences and to propose evidence-based policies to reform this important sector in a way that provides a favorable environment which enable it to become one of the drivers of development in the Palestinian economy, especially in terms of its contribution to production and employment.

The study pursues a holistic approach to come up with a process for reforming the cooperative sector in Palestine with focus on the reform of the legal framework that governs these cooperatives and the institutional and regulatory oversight arrangements, as well as on ways of providing support to this vital sector. The study relied on desk research, examining previous diagnostic studies that addressed the Palestinian cooperative sector. This study also reviewed the literature related to cooperatives around the world in order to benefit from their experiences. The research team conducted unstructured interviews with some active cooperatives, in addition to structured interviews with government officials, especially in the Ministries of Labor and Agriculture and the labor directorates in the governorates. Interviews were also conducted with a number of stakeholders, in particular support institutions, who stand to benefit from the results of this study such as We Effect (formerly known as the Swedish Cooperative Centre), the Economic and Social Development Center of Palestine (ESDC), the Applied Research Institute – Jerusalem (ARIJ), and the Agricultural Development Association (Agricultural Relief Committee, PARC), in addition to cooperative unions and cooperative associations, in relation to the various activities that they perform.

The research team also organized two extensive meetings in the form of focus groups with experts from organizations related to this sector. In particular, a focus group was held at the Salfit Governorate Labor Directorate with the participation of the Directorate's Head of Cooperation and a group of heads of the associations' boards of directors inside the governorate and those acting on their behalf. Another focus group convened at the Palestine Economic Policy Research Institute (MAS) in Ramallah with the participation of representatives from the Ministries of Labour and Agriculture, as well as representatives from different NGOs that support the cooperative sector.

After collecting the data from various sources by using the aforementioned methods, the research team conducted an analysis of the data by using various descriptive and analytical methods. Also, SWOT analysis was utilized to examine the strengths, weaknesses, opportunities, and threats facing this sector, whereas there is currently work underway to maximize the benefit from the existing strengths and opportunities in this sector by building upon them, and to determine the methods of tackling weaknesses by neutralizing and/or transforming them into strengths to improve the state of the Palestinian cooperative sector. Indeed, presenting the risks and threats facing this sector in the external environment that is influencing it and the analysis and specification of the ways of overcoming these risks and threats, and even their transformation into opportunities, can be highly beneficial in the development of the cooperative sector in Palestine.

The International Co-operative Alliance (ICA) represents the *acme* of cooperative work around the world. It is made up of 284 unions and cooperative organizations representing 95 countries and around one billion persons across the globe. The third edition of the *Cooperative Observer* (2014), which is issued by the ICA, shows that the capital of the largest 300 cooperatives around the world has grown in three years by 11.6% to reach more than USD 2.2 trillion in 2012. The publication also highlights that cooperatives create job opportunities with full or part-time work schedules for

approximately 250 million persons around the world, whereas this employment constitutes about 12% of the number of persons working in the G20 economies. As for Palestine, the data show that the size of capital and cooperative assets in the West Bank does not exceed USD 147 million, and there is no cooperative sector that is worth mentioning in the Gaza Strip, while the Palestinian cooperative sector provides employment for only 2.7% of the labor force.

The data of the *Cooperative Observer* (2014) show that most of the capital of major cooperatives was received from contributions by banking and financial cooperatives with a capital of USD 165 billion, in addition to the insurance cooperatives and mutual projects with a capital of about USD 1,156 billion. These major cooperatives are spread over 26 countries around the world and their activities can be categorized as follows: 46% of them work in the Insurance sector, 26% work in the agriculture and food production sector, and 20% of them work in wholesale and retail trade.

A large section of the world's population is involved in cooperatives. In Canada, four out of ten persons are members in at least one cooperative. In Malaysia, about seven million persons, or 27% of the population, are affiliated with cooperatives. In Norway, there are about two million members in cooperatives from a total of five million citizens. In Paraguay, 783 thousand persons, or 18% of the total population, are members of cooperatives. In Spain, there are 6.7 million members of cooperatives, constituting 15% of the population. As for Palestine, data show that the number of members of cooperatives only constitutes 2% of the total population, whereas this rate is 10% when we include members of their households.

The study came to a number of conclusions, the most important of which can be summarized as follows: First, the organized cooperative work in Palestine was established earlier than in many Arab states, as early as the 1920s according to the Law for Cooperatives issued by the British Mandate authorities in Palestine; Second, there is a duality in the laws governing the cooperative sector in Palestine since the Palestinian cooperative work is regulated by two laws: the British Mandate Law No. (50) of 1933 effective in the Gaza Strip and the Jordanian Law No. (17) of 1956 effective in the West Bank; Third, cooperatives in Palestine are currently being regulated by these laws through the Ministry of Labor/General Administration for Cooperatives and a number of NGOs cooperating with the General Administration to develop this sector; Fourth, 81% of the existing cooperatives focus on agricultural and housing activities, whereas the number of members of each cooperative is small, and cooperatives are closed and restricted to the level of families or governorates. Also, the outdated or obsolete enforced legal frameworks and the limited institutional arrangements for regulating the rights, duties and good governance have been a hindering factor for the increase in the number of cooperatives and their members and the spread of cooperative work. These issues also prevented small producers from moving from individualized economic activities to cooperative work in order to benefit from larger-sized economies.

The results also showed that cooperatives suffer from a number of problems which could be the reasons behind their failure and eventual discontinuation and liquidation. The most important of these problems could be summarized as follows:

- First: The duality and obsolescence of the prevalent laws and legislations with the presence of many gaps and loopholes in them;
- Second: A low level of awareness regarding cooperatives and cooperative culture (as a system), especially in matters pertaining to the principles and values of cooperatives, which in turn contributes a stumbling block for the provision of labor in the cooperative field;
- Third: A decrease in the number of persons involved in cooperatives as well as in the rate of female participation as cooperative members and as persons assuming high level of responsibility in the board of directors of cooperatives;
- Fourth: Shortage of financing tools for associations in general and for cooperative housing associations in particular;
- Fifth: Shortage in providing the necessary support and training with regards to financial, accounting, and administrative matters;

- Sixth: The lack of cooperative experience and knowledge, hence a mismanagement of cooperatives that frequently leads to their failure;
- Seventh: The establishment of cooperatives for the purpose of obtaining support or grants from donor parties or for attaining immediate objectives. This leads to the failure of the association upon the stoppage or expiry of the grant. Also, in many cases, personal interests surpass the public benefit which this contradicts the principles of cooperative work;
- Eighth: A weak perception of the usefulness of the cooperative movement and the joining of cooperatives. This is because of the insufficient number of successful cooperative associations in the country and/or due to the insufficient publication of the success stories of some cooperatives which could become sources of motivation for others;
- Ninth: Not having a periodic circulation of responsibilities among the heads and members of some boards of directors, especially with respect to the position of the President, Vice President, Secretary, and Treasurer;
- Tenth: Some cooperatives resort to implementing projects that far surpass their administrative and financial capabilities due to attractive external support, and sometimes these projects are outside the scope of the association's goals and activities;
- Eleventh: The absence of effective cooperation between the Ministry of Labor/General Administration for Cooperation and other ministries and governmental institutions;
- Twelfth: The boards of directors of cooperatives are many times not keen on the principles of transparency and accountability, thus undermining the factor of trust, which negatively impacts the achievement of activities that should be performed by cooperatives in a manner that is suitable to their goals;
- Thirteenth: The ineffectiveness of the oversight committee in many cooperatives, whereas its role is being confined to the attendance of the general annual meeting and ratifying the governing committee's financial and administrative reports;
- Fourteenth: Not giving sufficient attention to the harmonization of the work aspects of cooperatives in terms of their systems, governance, work environment, services provided by them, and the objectives for which they were established;
- Fifteenth: The insufficient devices and tools for doing financial and administrative oversight for the purpose of elevating the level of governance in cooperatives, being keen on promoting and spreading the values of cooperative work, and for preventing the misuse of cooperatives as a way for achieving personal benefits.

In light of these shortcomings and deficiencies, the Ministry of Labor with its general administration responsible for organizing the cooperative sector, along with the institutions that support the sector, have aimed to solve these problems through specific procedures for tackling the situation, most notably: to work on reforming and unifying the cooperative sector's organized legal framework in the Gaza Strip and the West Bank by preparing a new updated Cooperative Law that fulfills the need for enhancing and spreading the idea of cooperative work by learning from the rich experiences and developments seen by the global cooperative movement. The Ministry and its partners have prepared a new updated draft law for cooperatives based on the principles of international cooperation and the resolutions and recommendations of the United Nations, the International Labor Organization (ILO), and the International Co-operative alliance (ICA). After holding several panel discussions and workshops, in 2010 the final version of the draft law was completed and was ratified by the Palestinian Council of Ministers in the same year. However, until now, this draft law is still awaiting presidential endorsement and has thus not been issued and put into force.

Based on the above-mentioned conclusions and the reviewed experiences of other countries, the study came up with a number of recommendations which could be summarized as follows:

- First: It is important to benefit from other countries' experiences, especially in terms of the laws governing the cooperative work and promoting larger investments in the cooperative sector, in addition to examining models from the global cooperative movement and benefiting from their experiences, as well as looking for new activities and sectors in which cooperatives could be established in Palestine, such as insurance, banking, professions, and handicrafts;

- Second: The importance of unifying the laws governing the cooperative sector in Palestine, in regards with which the General Administration for Cooperation – in cooperation with the institutions supporting the Cooperative sector – has prepared a bill for a new law for cooperatives. Efforts must be exerted to issue and pass this bill after doing the necessary modifications which we have recommended in this study;
- Third: Until this is done, it is necessary to hold workshops to explain the decisions and changes issued by the Ministry of Labor/General Administration for Cooperatives in order to fill the gaps in the prevalent laws governing the sector and to introduce the modifications to the stakeholders;
- Fourth: The importance of raising awareness of the cooperative culture and idea among various members of society, starting from primary and secondary school and continuing at universities in order to influence the public opinion through the media and public activities that aim to demonstrate the importance of this sector. This includes the issuance of a periodical which discusses the performance of cooperatives. This could also include the use of arts such as producing movies and theatrical plays that show the positive aspects of this sector as well as some of the negative practices of the members of general and administrative bodies;
- Fifth: There is a need to separate the General Administration for Cooperatives from the Ministry of Labor by forming a General Administration for Cooperatives which is financially and administratively independent, while taking into consideration the fact that the proposed cooperative legal bill explicitly stipulated the establishment of this body under the name of “Commission for Organizing Cooperative Work”;
- Sixth: The importance of activating cooperation between the Ministry of Labor/General Administration for Cooperatives and other national ministries and institutions, which would lead to the development and growth of cooperatives and improve the quality of goods and services produced by them;
- Seventh: The importance of increase women’s participation in cooperative work in all economic activities, in addition to encouraging women to be become members of the boards of directors of cooperatives;
- Eighth: The importance of preparing further studies and researches which examine and analyze specific problems that the cooperative sector faces, as well as conducting more feasibility studies on expanding cooperative work in other sectors;
- Ninth: It is necessary to focus on the elected commissions’ commitment to the values of good governance, especially transparency and accountability, and the rotation of authority in the administration of cooperatives, in order to prevent the exploitation of cooperatives for personal interests. Also, there is a need to exclude the presence of any first-degree or second-degree relatives inside the board of directors and to activate the role of the oversight committee inside the associations;
- Tenth: The importance of excluding the ineffective (non-functioning) associations after attempting to activate them by solving the problems that they face, as t currently non-functioning associations account for as much as 30% of the associations which are officially registered at the General Administration for Cooperation.