

**Producer co-operatives for the economic development of Timor-Leste:  
Exploring potential and challenges**

**By**

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## Abstract

Three sectors—public, private and co-operative—co-exist in Timor-Leste for the economic development of the country. Over the years since national independence in 2002, the country's economy has been highly dependent on funds from oil and gas fields, which have been invested in a Petroleum Fund (PF). From the General State Budget approved annually, nearly 90% comes from the PF. As a non-renewable resource, oil and gas fields will be depleted, and it is predicted the PF will run out too. Thus, the need to develop other economic activities is essential, and it is the co-operative sector that so far has been the least developed. Given this context, this research explores the potential for producer co-operatives to contribute to the economic development of the country. The aim of this study is to understand the characteristics that enable producer co-operatives to succeed and the challenges that they face.

This is a qualitative study, and the methodological framework is Appreciative Inquiry (AI). AI is an approach to comprehend the social world that is focused on appreciation rather than problem-orientation. Interviews and document analysis were the methods for data gathering. Field research was conducted in Timor-Leste. While other types of co-operatives exist, this research specifically targeted producer co-operatives as these are the least formalized. Interviewees were representatives of ten producer co-operatives, with production activities in horticulture, handicraft and fisheries, as well as two interviewees from the government.

The key findings of the study are: 1) producer co-operatives have proven to make significant socio-economic contributions at the level of members' households and communities; 2) nine characteristics have found to be the key factors that enable producer co-operatives to succeed; 3) challenges internal and external to the co-operatives hinder their ability to perform well. Support from the government and non-state actors is recommended to address these challenges and build on prior successes.

## **The Declaration of Authenticity statement**

I, Elsa Joaquina Araujo Pinto, declare that the Master Minor thesis entitled ‘Producer co-operatives for the economic development of Timor-Leste: Exploring potential and challenges’ contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

Signature:

A handwritten signature in black ink, appearing to read 'E. Araujo', with a stylized flourish at the end.

Date: 3<sup>rd</sup> July 2020

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## Abbreviations and Acronyms

|          |  |
|----------|--|
| AI       | Appreciative Inquiry   |
| FRETILIN | The Revolutionary Front for an Independent East Timor - <i>Frente Revolucionária de Timor-Leste Independente</i> |
| GSB      | General State Budget   |
| ICA      | International Co-operative Alliance  |
| ILO      | International Labour Organization  |
| KOHAR    | <i>Koperativa Hamriik iha Ain Rasik</i>  |
| KUD      | Koperasi Unit Desa/Village Co-operative Unit   |
| MCIA     | Ministry of Commerce, Industry, and Environment  |
| MoF-TL   | Ministry of Finance Timor-Leste  |
| MKP      | Movimentu Koperativa Produsaun   |
| NGO      | Non-Governmental Organisation  |
| PF       | Petroleum Fund   |
| RDTL     | República Democrática de Timor-Leste   |
| SECoop   | Secretary of State for Co-operatives   |
| SEEI     | Secretary of State for Equality and Inclusion  |
| SEPFOPE  | Secretary of State for Vocational Training Policy and Employment   |
| TL       | Timor-Leste  |
| UNDP     | United Nations Development Programme   |

## CHAPTER 1 INTRODUCTION

### 1.1. Background

Timor-Leste had adopted co-operatives as one of the sectors for economic development under its constitution. Based on Section 138 of the Timor-Leste Constitution (RDTL, 2002) three sectors are directly responsible for economic development namely, the public/state sector, the private sector, and the co-operative sector. The Constitution identifies the three sectors coexisting for the country's economic development. There has been an idea of the co-operatives sector as an important sector for economic development since the very beginning of the national independence period in 1975. This research focuses on the co-operative sector and how it might change from being the least developed sector in supporting the economic development of the country.

A co-operative organization is 'a self-help business, owned and democratically controlled by the people who use its services and share in its benefits' (Briscoe & Ward, 2005, p. 10). A co-operative is owned, run and used by its members, with all the benefits accruing to the members. Thus, a co-operative is member-centered, and the basic principle of co-operatives is that the benefits of its services focus on the enhancement of the social and domestic situation of its members (Robertson, 2010). The aim of a co-operative is not for the economic purpose only, but crucially it includes the social purpose and the cultural needs of its own community. This has made co-operative a unique organization for social, cultural and economic development.

In Timor-Leste, the positive potential of co-operatives is well recognized from the government level to the grassroots level, as well as by international organizations. This recognition can be seen through the co-operative related legislation and policies made by the Government of Timor-Leste (MCIA, 2013). At the community level, this recognition can be seen through the work of some active co-operatives such as Women's Fulidaidai co-operative in Iliomar-Lospalos (da Silva, 2008), Fair Trade organizations working with agriculture co-operatives in Timor-Leste, and the United Nations Development Programme (UNDP) in Timor-Leste supporting co-operatives in Manatuto (UNDP Timor-Leste, 2018b). Moreover, based on the researcher's professional experience as a community development practitioner,

co-operatives are frequently discussed and started-up in the community. They are seen as an important sector for economic development that has a strong and immediate impact at the grassroots level. Many different actors in Timor-Leste agree that co-operatives are necessary, and they have a meaningful contribution to make in Timor-Leste's economy. However, in the roll out of the government's national development strategy, the promotion of co-operatives has not reached a critical mass level to which they can contribute effectively to a diverse economic development process in Timor-Leste.

Over the years since national independence in Timor-Leste, co-operative development has been neglected when compared to the other two sectors (public and private), despite the legal frameworks and policies that are in place. For instance, the 2019 General State Budget (GBS) focused on investing in people, investing in infrastructure and investing in economic development (Jornál da República, 2019). However, from the total amount of investment approved for the 2019 GBS, which is US\$1.4 billion, only US\$2.9 million is allocated to investment in the co-operative sector. This amount is composed of US\$ 1.6 million allocation to the Secretary of State for Vocational Training Policy and Employment (SEPFOPE) for a rural employment programme, and US\$1.3 million to co-operatives subsidies. In July 2019, Timor Post news informed that the government under the Ministry of Commerce, Industry, and Environment (MCIA) allocated US\$1 million to support just nine co-operatives in Timor-Leste (Ono, 2019, p.11). This comparatively low allocation of funds is indicative of the undervalued position that co-operative development is often reduced to, contrary to stated claims that it is one of the top priorities. Co-operative development should be strengthened so that it can play its role as one of the three pillars of socio-economic development in the country. Given co-operatives have been earmarked as a potential economic development strategy, this study focused on investigating the potentials and challenges of co-operatives for the economic development of Timor-Leste. Among other type of co-operative existed in Timor-Leste, this study focuses at the producer co-operative as the least formalised one.

## **1.2. Need for economic diversification in Timor-Leste**

Economically Timor-Leste is highly dependent on oil and gas revenues to fund state expenditure. According to the Ministry of Finance Timor-Leste (MoF-TL, 2019a), the approved 2019 GSB was US\$1.4 billion, of which 90% came from the Petroleum Fund (PF) of Timor-Leste. The PF is the autonomous wealth fund into which the surplus wealth produced by Timor-Leste petroleum and gas income is deposited by the government (MoF-



TL, 2019a). As of 31 December 2018, the PF accounts stood at US\$15.804 billion (MoF-TL, 2019b).

A prominent local independent organization La'o Hamutuk has analysed the sustainability of the PF and developed a model to forecast how long the PF can finance state activities (La'o Hamutuk 2019). This model considers various important factors including, but not limited to, the historical and predictable data on petroleum revenue and return on PF investment. Based on this model, it is estimated that, given the current budget assumptions for public spending, the PF will run out by 2024. Since oil and gas is a non-renewable resource, the existing field will reach the end of its production capacity soon, with no further revenue coming into the PF. One of the latest analyses in 2017 by the International Monetary Fund estimates that the current oil and gas field will be depleted by around 2022 (UNDP Timor-Leste, 2018a)<sup>1</sup>. Accordingly, as a country Timor-Leste is in great need to develop other sectors apart from public/private petroleum investments. There is an immediate need for economic diversification to be put in place before the oil and gas fields are depleted and the PF runs out. The need to develop the private and co-operative sectors has become more important than ever as additional sources of income for the country's citizens and for the public treasury.

Timor-Leste needs a more robust economic development process to deal with unemployment. The unemployment rate is high in this country and is highest among the youth population. Based on the 2015 population census report, the Timor-Leste population is composed of 1.2 million people. The recent Human Development Report states that 74 percent of the population is under 35 years of age (UNDP Timor-Leste, 2018a). Data from both 2010 and 2015 showed young people (aged between 15 to 29) to account for roughly 70 percent of the national unemployed population (UNDP Timor-Leste, 2018a). However it is worth noting that the General Directorate of Statistic (Statistics Timor-Leste, 2015) defines as unemployed those people who did not have a job in the last week, did not have a permanent job, or did not look for work as they were waiting for a response or a recall from an employer, or waiting for the busy season. This definition does not include those young people who stop looking for job as they see there is no chance of finding any work given the current lack of employment opportunities. The high levels of unemployment reinforce the need to invest in and focus on

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<sup>1</sup> This assumes no new gas and oil fields have been discovered.

sectors for economic development other than gas/oil, including the co-operative sector that is the least developed.

### 1.3. Co-operatives in Timor-Leste

There were 151 co-operatives registered by March 2014 according to the statistics from the Ministry of Commerce, Industry, and Environment (MCIA, 2014). Total co-operative membership in this register stands at 38,542, comprising of 22,093 men and 16,449 women. The registered co-operatives operate in three different forms, namely, credit union, multisector and producer. According to MCIA (2013), Credit Union (CU) co-operatives focus on saving and loan activities, where only co-operative members can have access. Multisector co-operatives (also known as multipurpose co-operatives) work on more than one type of activity. Finally, producer co-operatives focus on production activities including fisheries, agriculture, livestock, and art and crafts industry. Of these three types of co-operatives, the Credit Union co-operatives are the highest in number (see Table 1.1).

**Table 1.1: Co-operatives in Timor-Leste, 2014**

| Co-operatives types        | Active co-operatives | Inactive co-operatives | Para-co-operatives | Total co-operatives | Percentages of inactive co-operatives |
|----------------------------|----------------------|------------------------|--------------------|---------------------|---------------------------------------|
| Credit Union               | 54                   | 20                     | 7                  | 81                  | 24.6%                                 |
| Multisector                | 16                   | 9                      | 3                  | 28                  | 32%                                   |
| Producer                   | 18                   | 21                     | 3                  | 42                  | 50%                                   |
| <b>Total co-operatives</b> | <b>88</b>            | <b>50</b>              | <b>13</b>          | <b>151</b>          |                                       |

*Source:* Adapted from MCIA (2014).

Of the total number of co-operatives in 2014, active co-operatives accounted for 88, inactive co-operatives 50, and the para-co-operatives 13. A word about terminology here is necessary for the reader. In Timor-Leste, a para-co-operative is a group that is undergoing the registration process to become a registered co-operative. The inactive co-operatives no longer operate as such or are considered to have failed. Although the data provided here was from 2014, it is still relevant, as little has changed regarding the overall number of co-operatives. In July 2019 the Secretary of State of Co-operatives informed the media that the country's total number of co-operatives was 156 (Ono, 2019, p.5). This means that only five new co-operatives had been added to the total number of co-operatives in the five years since 2014.

The last column in Table 1.1 shows the percentage of inactive co-operatives among the three different types of co-operatives. It shows that the highest percentage of inactive co-operatives comes from the producer co-operative type. Producer co-operatives account for 50% of inactive co-operatives, while multisectoral co-operatives account for 32% and CU less than 25%, even though they are much greater in number.

This shows that producer co-operatives in Timor-Leste are the most likely types to become inactive co-operatives and suggests that they face particular challenges that need to be better understood. In view on this, the objective of this study was to investigate the producer co-operatives in order to understand their potentials for growth and contribution to Timor-Leste's socio-economic development; isolate good practices which could be enhanced or even emulated; and in the process mark challenges to inform learning strategies for co-operatives.

Based on the above rationale, this study was guided by the following research questions:

- 1) How have producer co-operatives developed since the restoration of national independence?
- 2) What is it that successful producer co-operatives do which other less successful ones do not do?
- 3) What are the challenges faced by producer co-operatives?
- 4) How can these challenges be minimized or addressed?

#### **1.4. Significance of the research**

This study is important as there is limited research on co-operatives in Timor-Leste and their contribution to the economic development of the country. Nunes (2015) states that there is limited quantitative information on co-operatives as a sector and its economic outcomes. Similar to the qualitative information as there is lack of qualitative research done on co-operatives sector in general, and producer co-operatives in particular. Thus, the significant of this study is to provide a qualitative information on the producer co-operatives. The study is aimed at contributing to understanding producer co-operatives in Timor-Leste. At a practical level, there is a lot scope for many small groups and initiatives to work together co-operatively in rural areas. However, since the constitutional establishment of the co-operative sector, there is little information on how co-operative development can contribute, or does contribute, to the socio-economic development of the country, and how co-operatives can

start-up in rural areas. This study, therefore, deemed it important to provide empirical evidence on development of producer co-operatives, as complementary to the public and private sectors in the development effort. Further, producer co-operatives can be effective in directly fostering economic development, particularly in the rural areas of Timor-Leste. This study is important in that it sheds light on the potential of producer co-operatives as an important sector in socio-economic development. In this way, this study was designed to aid evidence-based decision-making to promote the co-operative sector's role in socio-economic development.

At the international level, co-operative organizations and their contribution to the economic development progress is well documented. The International Co-operative Alliance (ICA) was founded in 1895. It is one of the oldest non-governmental organizations and one of the largest measured by the number of people represented. Based on its data, there are more than one billion co-operative members around the world (ICA, 2018a). ICA aims to unite, represent and serve co-operatives worldwide. Therefore, as one of the first studies of the dynamic of the producer co-operatives in Timor-Leste, this study contributed to global discussions of the development of co-operatives and may offer lessons relevant in other less developed economic studies.

Furthermore, in Timor-Leste, the economy of the country constitutionally depends on the public sector, the private sector, and the co-operative sector. However, in practice, Timor-Leste's economy is overwhelmingly concentrated in the public sector. There is enormous pressure on oil revenue as the main public revenue source for the government. Therefore, this research is important to analyse the potentials and challenges of producer co-operative development, as this can provide an alternative public revenue source.

## CHAPTER 2 LITERATURE REVIEW

This research draws on extant literature on co-operative development around the world, including literature on co-operatives in Timor-Leste in order to appreciate the contribution this study aims to make within this body of work. Beginning with the broad history and meaning of co-operatives, this chapter then focuses on co-operatives in Timor-Leste, their historical significance, motivations that drive them, and recent challenges.

### 2.1. History of co-operatives movements

The co-operative movement was started by the working-class. As stated by Bate and Carter (1986), producer co-operatives started with the discontent of working-class people as a result of the early capitalist industrialization during the period 1826–1835. During the age of revolt in England, co-operatives arose out of the various social reform movements that broke out between 1808 to the 1830s (Restakis, 2010). This popular instinct for social reform brought workers together to push for social changes, including the demand for popular suffrage first started by women's rights movement with these first-time workers having the ideas and the space to struggle for their own education and self-improvement. Through the work and teaching of Robert Owen, William Thompson, and William King various social movements came together and resulted in the birth of the idea of the co-operative movement (Restakis, 2010). Though now known globally, the idea of co-operatives did not just emerge and spread right away, but rather it passed through various changes and adaptations up to the present day.

The first person to promote the idea of co-operatives was Robert Owen during the early 1800s era of depression and poverty. Through his report on the poor, Owen shared his ideas on how to reform Britain's economic and social order through the creation of what he called 'Village of Co-operation' (Restakis, 2010). The ideal socialist society envisaged by Owen was through the creation of co-operative communities. Furthermore, he saw that through co-operation people in the world can create a just society, as well as wealth. Owen's ideas were rejected by the mainstream after the failure of his New Harmony community in Indiana, USA, and other similar failures in England (Fusfeld, 1994). Aside from this, Owen also tried to establish producer co-operative where the group of factory workers owned the factory in which they worked; however, it did not flourish too (Fusfeld, 1994). However, the idea of co-

operative spread widely in England by social reformers and became known as the co-operative movement. In addition, Thompson (1968, p. 789) states that Owen provided 'ideological raw material diffused among working people and worked up by them into different products'. Since the very beginning of the co-operative movement, Owen stressed the ideas of education, and particularly adult education, with the economy placed within the social context as the supreme element (Restakis, 2010). From this perspective, co-operatives are not only about profit, but they are about people and their relationships in the 'villages of co-operations', where all the community members can work together to meet their needs.

Building on from Owen's idea of the village co-operative, the first successful consumer co-operative was in Rochdale, England. The Rochdale Pioneers was established by 28 pioneers in 1844, who created their own retail shops (Briscoe & Ward, 2005). The fundamental reasons for their establishment were because of the economic depression and difficult access to jobs, high prices of goods, and low income and ability to meet basic needs. These retail co-operatives were built on the ideas and efforts started by Owen. Due to the great success at the time of the Rochdale Pioneers, it was not long before the same idea of co-operatives spread from England to Europe and the USA (Briscoe & Ward, 2005). It is interesting to note that, when talking about co-operative history, Rochdale Pioneers are always included as the first successful consumer co-operative, but not always recognizing Robert Owen's ideas as the starting point (Briscoe & Ward, 2005; da Silva, 2008; Robertson, 2010).

In Asia, including Indonesia, the neighbouring country of Timor-Leste, it is claimed that the basis for the co-operative movement was different from in Europe. Sharma (1997 in Oktaviani 2004, p. 78) claims that the co-operative movement in Indonesia was 'affected by the land revenue system which was imposed by the colonial powers'. During that time the landless labour grew rapidly as a result of colonialization, this then led to the birth of co-operative movements in Asia and Indonesia. Under the circumstances of colonialism, co-operatives were seen as a threat because of their democratic content, with rulers suspecting that this could lead to national independence movements. This was what happened in Indonesia's case where the Dutch government suspected that co-operatives could be used as a political tool for people to live independently (Oktaviani, 2004).

In terms of development history, Johnson and Shaw (2014) claim that co-operatives are largely absent from the literature of the history of development. Most of the works of

literature on co-operatives refer to the history and success of co-operatives in Europe, United Kingdom and Ireland, with very limited information on co-operative development in the developing countries (Johnson & Shaw, 2014). In this case, Timor-Leste as a country shares with other developing world countries the scarcity of co-operative development history.

## **2.2. Definition and principles of co-operatives**

Before moving further, it is important to understand the definition and principles of co-operatives. There are various definitions of co-operatives, however, the Briscoe and Ward (2005) definition provided in section 1.1 provides an adequate working definition as it highlights four critical aspects. First, the idea of self-help is understood as the actions where the people come together under a co-operative to respond to their own needs and problems. Second, a co-operative exists to serve the members of that co-operative. Third, a co-operative is democratically controlled, which means that members have the rights and responsibilities to control the co-operative democratically. Co-operatives apply 'one person, one vote'. Finally, in co-operatives, members share benefits based on the use of co-operative services. The more the members use the co-operative services, the more benefits will be gained by these members. These features make the co-operative organization stand out as different from corporations or other organizational forms.

The government of Timor-Leste has aligned its definition of a co-operative with the definition approved by the international community under the ICA. In 1995, the ICA agreed on a working definition on co-operatives and its principles. According to the ICA (2018b): 'A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and goals through a jointly-owned and democratically-controlled enterprise.' ICA emphases are on a co-operative being owned and run by members to meet their common needs of its members, and the needs of the society these members belong to in general. The profits generated from co-operatives are reinvested in the co-operative's activities or refunded to the members (ICA, 2018a).

ICA's definition of co-operatives is commonly used at the international and local levels. As an example, at the international level, the International Labour Organization (ILO) has adopted the ICA definition of co-operatives. At the national level, as a country, Timor-Leste has also adopted this ICA definition of co-operative in its legal frameworks.

The ICA's seven principles of co-operative (ICA, 2018b) were adopted by the Government of Timor-Leste under the National Directorate of Co-operative (MCIA, 2013). These seven principles of co-operative are: 1) voluntary and open membership; 2) democratic member control; 3) member economic participation; 4) autonomy and independence; 5) education, training, and information; 6) cooperation among co-operatives, and 7) concern for the community (MCIA, 2013; ICA, 2018b). Co-operative principles focus on people as members and emphasize collective action that leads to the greater result in responding to human needs through economic, social and political participation. These principles serve as the basis to expand the idea of co-operatives to the community. As a collective organization, co-operative action is guided by these seven principles.

In the context of Timor-Leste, da Silva (2008) states that the co-operative principles of autonomy and independence have connection to the local notion of "*ukun rasik-an*" (independence, self-rule) that was promoted by the East Timorese nationalist movement for independence from its colonisers in early 1975. When linking the term *ukun rasik-an* to economic development, it means that 'the Timorese people need to control their local resources and to ensure there is no dependency on external forces in terms of capital' (da Silva, 2008, p. 18). Accordingly, key principles of co-operatives have great relevance to the East Timorese value of *ukun rasik-an* that has been promoted in Timor-Leste since the period of 1975. An outline of the history of the co-operative movement in Timor-Leste is discussed in the next section.

### **2.3. History of co-operatives in Timor-Leste**

Being under the colonial rule of the Portuguese for more than 450 years, and under Indonesian occupation for 24 years (Molnar, 2010), Timor-Leste survived as an independent entity through different ways of working together. Anticipating the end of Portuguese rule, in its political manifesto in 1974, FRETILIN (The Revolutionary Front for an Independent East Timor), the resistance party in Timor-Leste, had already included 'co-operative' as a future means of economic development (FRETILIN, 1974). Indonesia invaded Timor-Leste in 1975, immediately after the Portuguese departure, and its military occupation of the territory lasted until 1999 (Molnar, 2010). According to da Silva (2008), FRETILIN began forming agriculture co-operatives as part of the local political resistance to the Indonesian regime and



as a way to establish economic self-reliance. Agriculture co-operatives were run from 1975 through 1978 in *Zona Liberdade* (Liberated Zone) which were the areas protected by the national resistance movement from the Indonesian occupiers (da Silva, 2008). The subsistence farming of these co-operatives helped to sustain the East Timorese resistance struggle against Indonesia. Eventually, *Zona Liberdade* fell to the Indonesian armed forces in 1978, which then resulted in the destruction of agriculture co-operatives in that territory.

In the early 1980s, the Indonesian occupying regime introduced *Koperasi Unit Desa* (KUD, Village Co-operative Unit) to the Timor-Leste territory. According to an Evaluation Report by Yuwono (1992) on the co-operative sector, KUD is a business enterprise unit that was specifically set up as an economic pillar in Indonesia's Constitution in 1945. KUD units were established in all the Indonesian regions, including Timor-Timur. Interestingly, even though the name is co-operative, however, in practice KUD did not reflect the principles of co-operatives as agreed on internationally. KUD was controlled by the Indonesia government and military, and most of the controlling process were conducted by the central government in Jakarta. Antero da Silva (2008) states that KUD were co-opted into the Indonesian corporate governance structure, whereby the military, the business oligarchy and the ruling elites controlled national resources and economy. KUD were established at the sub-district level and were subsidized to benefit the small local ruling elite, including opportunistic local government officers in *Timor-Timur* (the Indonesian province name of Timor-Leste).

In this case, the concept of co-operatives was being used to pursue political power and control, rather than empowering local people. As Johnson and Shaw (2014) argue, co-operatives in developing countries have struggled with a legacy from both the colonial and post-colonial period, and this legacy has limited co-operatives' performance and effectiveness. This can be seen in how during the Indonesia occupation of Timor-Leste co-operatives were heavily controlled by the Indonesia government. In this way, co-operatives lost their essential principles and functions. Instead of serving the needs of their members, co-operatives were run to serve the needs of a few local elites and the colonial government.

#### **2.4. Motivation to establish co-operatives**

In general, the design and purposes of co-operatives are different to other forms of business, and the motivations for establishing co-operatives help shed light on the benefits that they

offer. O'Connor (2004) identifies three common motivations for establishment of co-operatives. The first motivation is to increase the bargaining powers of its workers; the second common motivation is to utilise incentives offered by governments to co-operatives; and the third motivation is that members consider through working together that they have the chance to pursue a specific business opportunity (O'Connor, 2004). He also added that of these three motivations, in recent decades the third motivation is claimed to be more common.

In Timor-Leste, the early motivation for co-operatives can be found in the Political Manifesto of FRETILIN (1974), which stated co-operatives to be the foundation of independent Timor-Leste's economy. In the *Zona Libertada* from 1975 to 1978 (during the early period of Indonesia occupation), the motivation to start co-operatives was to sustain the independence struggle. The East Timorese Ministry of Labour and Welfare (which had been initiated during the very short period of self-declared independence from the Portuguese colonizers before the Indonesian military invasion) mobilized people in *Zona Libertada* to establish a popular health system to produce medicine and health schools, adult education, and co-operatives for food production (da Silva 2011). The co-operatives were a form of organization that aimed to fight against colonial rule. The working together and solidarity shown in *Zona Libertada* areas contributed to the armed resistance struggle by providing food, shelter, medicines, and support for the guerilla fighters (da Silva, 2011).

The importance of this movement to the resistance served as a strong motivation to start co-operatives when Timor-Leste finally gained independence from Indonesia. In 2002, the co-operative sector was adopted as a key sector under the national Constitution, viewed as a way to improve the social and economic life of the East Timorese. Therefore, the contribution of this research is to provide qualitative information on the potential and challenges for producer co-operatives in Timor-Leste from 2002 to 2019. the co-operative as an organizational form needs to be strengthened in order to bring great socio-economic benefits to Timor-Leste.

## **2.5. Co-operative movements: potentials and challenges**

There are various benefits associated with being a member of a co-operative, as discussed in the reviewed literature. For the purpose of this study, the role of co-operatives in addressing economic development and poverty is one focus. There has been considerable interest

recently in co-operatives' potential to reduce poverty (Briscoe & Ward, 2005; United Nations, 2012; Johnson & Shaw, 2014; Nunes, 2015). The critique of capitalist growth models of development and their effects on poor populations, on the environment, and on social justice has grown (Johnson & Shaw, 2014). Therefore, the need to find alternative models for social and economic organisation has increased, and co-operatives are one alternative model possible. In 2010 at the international level, co-operatives returned to the development agenda because of their role in promoting economic and social development (Johnson & Shaw, 2014). As the result, the United Nations General Assembly declared 2012 as the International Year of Co-operatives, highlighting the contribution of co-operatives to socio-economic development, particularly their impact on poverty reduction, employment generation and social integration (United Nations, 2012). Producer co-operatives are entrenched in a wide economic and political development agenda. In poor developing countries, the agricultural sector is the major sector in which producer co-operatives operate and contribute to development, and non-agriculture producer co-operatives (such as handicraft) are also important contributors.

ILO claims that co-operatives are crucial to improving people's living and working conditions for both women and men around the globe. Moreover, co-operatives have a proven record of creating and sustaining employment. Based on data provided by ILO there are around 279 million jobs created under co-operatives (ILO, 2020). In Timor-Leste's context, co-operatives have the potential to contribute significantly to economic development. Co-operatives in Timor-Leste can be an alternative response to the high number of unemployed among women and young people, as co-operatives can create job opportunities (Nunes, 2015).

In addition, the global environmental conditions have become a new important element in the rationale for co-operatives (Bate & Carter, 1986). Producer co-operatives in agriculture have been given increased attention because of the various positive potentials they offer to farmers who face challenges of food security and climate change (Johnson & Shaw, 2014). Johnson and Shaw (2014, p. 669) describe 'co-operatives as sites of learning, community participation and democratization', which have the potential to contribute to food security, make the most of the value chain, promote Fair Trade, grow different models of innovation, and create employment and access to markets. In addition, Chambo (2009) study on agriculture co-operatives in Africa that agriculture co-operatives have the potential to improve the lives of farmers in rural areas, because co-operatives can deliver higher levels of income to their

members, which then enables small farmers to build a decent house, support the education of their children and have access to health care. Moreover, agriculture co-operatives offer potential for food security and rural development, 'that is why; rural development would greatly be enhanced, if people became members of agricultural co-operatives in general' (Chambo, 2009, p. 8). When linking this experience from Africa to Timor-Leste, there are similar shared needs to enhance rural development and food security.

Despite its potential and this renewed interest, the co-operative movement has always encountered various challenges. The challenges to co-operatives' survival can be divided into those that are internal to the co-operative and those that are external (Bate & Carter, 1986). Internal factors include 'level of conflict; discipline, worker commitment, motivation and satisfaction, flexibility, and skill levels' (Bate & Carter, 1986, pp. 60-61). External factors include 'the security of the market, appropriateness of products, competitiveness, and the existence of discrimination (positive or negative) towards the co-operatives' (Bate & Carter, 1986, p. 61). Considering the history of co-operatives, success has not depended only on the external factors, but critically on the ways that co-operatives internally operate, i.e. the co-operation among members on a practical daily basis. A critical issue within co-operatives is the managing of conflict (Bate & Carter, 1986; Pammer & Killian, 2003).

Hanisch (2016, p.48) states that agricultural co-operatives specifically face challenges such as 'low managerial capacity and members, weak finances, and political interference [which] have frequently disappointed the high expectation set for co-operatives'. The first two challenges mentioned by Hanisch can be categorized as internal challenges, and the third as an external challenge that is based on political intervention in co-operative management. Analysis from the 2012 International Summit on Co-operatives (ICA Americas-Newsletter, 2012, p. 5) claims that agriculture co-operatives encounter new societal and economic challenges in four major areas. First, the world's growing population requires the agriculture industry to feed nine billion people by 2050. Secondly, strong volatility in commodity price makes it difficult to have stable prices. Thirdly, most countries in Europe and developed countries have seen a steady decrease in the number of farmers. Finally, preserving farming and agricultural land throughout the world is a problem. Agriculture consumes 70% of the world's freshwater and is responsible for 13% of greenhouse gas emissions (ICA Americas-Newsletter, 2012). In addition, as urban areas expand, high productive agricultural land is lost to housing development. At the global level, the demand for food production has increased

rapidly which then forces more use of land for agriculture (Neumann, 2010). In agriculture, land management and land use are not only about the biophysical, but also relate to other factors. According to Neumann (2010, p. 22) ‘socio-economic and political factors, for example population density, labor availability, and market accessibility’ must be considered when discussing agricultural land management and land use intensity. Considering these challenges at the global level, Timor-Leste needs to invest in agriculture sector to be able to respond to demand of food within the country.

Challenges faced by agriculture co-operatives reflect the difficulty of producer co-operatives in general to contribute to economic development and the need for government policy to address such challenges directly. However, the lack of literature that discusses role of public policy and government to address external and internal challenges limit understanding of the challenges faced by producer co-operatives, and especially agricultural co-operatives.

## **2.6 Summary**

Timor-Leste has adopted into its co-operative legislation the definition and principles of co-operatives as defined by ICA. Internationally, co-operatives have proven to be a form of socio-economic organization that can support rural development and improve the lives of low-income people, offering an alternative to the capitalist economic development approach. Lack of literature on co-operatives in Timor-Leste makes it important for this study to explore the potential and challenges of producer co-operatives in this county.

## CHAPTER 3 METHODOLOGY

This chapter focuses on explaining the overall methodology and specific methods that were used to research the potentials and challenges of producer co-operatives in Timor-Leste. In this research, the producer co-operative as a type of business is the direction this study takes. Such co-operatives in Timor-Leste are owned and democratically controlled by independent producers, such as farmers, fishermen, handicraft producers, and artists. There are also small business co-operatives that operator as taxi drivers, pharmacists, and artists.

### 3.1. Research Aims and Objectives

This research aims to address the four research questions set out in section 1.3 above by seeking to understand the role of producer co-operatives in Timor-Leste's economic development and their future contribution to the economy. With this aim, the project has the following objectives.

- 1) Investigate current effective practices of successful producer co-operatives in three forms of business interest:
  - (i) Horticultural (including coffee-producers),
  - (ii) Handicraft, and
  - (iii) Fisheries.
- 2) Identify the potential of the producer co-operative sector to contribute to economic development in Timor-Leste as a springboard to responding to persistent challenges.

This involves:

- (i) understanding the current policy environment,
- (ii) investigating co-operatives' access to financing, markets (local and international) and support, for example training,
- (iii) investigating potential benefits from collaboration among co-operatives in the region, and
- (iv) Examining the growth and development of the producer co-operative sector between 2002 and 2019.

### 3.2. Methodology

This is a qualitative research project, which means a research approach that generally gives importance to words and meanings in the collection and data analysis, rather than quantification (Bryman, 2012). To address the research questions, a case study qualitative

research approach is adopted. The case study qualitative research may be described as an ‘intensive study ... [involving] qualitative interviewing of a single case, which may be an organization, life, family or community’ (Bryman, 2012, p. 70). In this research, the focus case is a type of organisation: producer co-operatives in Timor-Leste.

In terms of the sample selection, this research uses purposive sampling. Purposive (judgemental) sampling is ‘a type of nonprobability sampling in which the units to be observed are selected on the basis of the researcher’s judgment about the ones that will be the most useful or representative’ (Babbie, 2013, p. 187). In addition, Bryman (2012, p. 408) states that ‘the goal of purposive sampling is to sample cases/participants in a strategic way, so that those sample[d] are relevant to the research questions that are posed’. Based on this definition and goal, the researcher will make judgments in order to define which producer co-operatives would be targeted and included in the research sample.

The theoretical framework that guides this study is Appreciative Inquiry (AI), as developed by David Cooperrider in the 1980s (see Cooperrider & Whitney, 2005). AI first focused on organizational development, then it expanded to become one of the research approaches used widely. Reed (2007) states that AI is a fundamental approach to comprehend the social world; it focuses on appreciation rather than problem-orientation. According to Reed (2007, p. 2), AI focuses on ‘exploring ideas that people have about what is valuable in what they do and then try to work out ways in which this can be built on; the emphasis is firmly on appreciating the activities and responses of people, rather than concentrating on their problem’. Each producer-co-operative will be analysed regarding practices that enable success, growth and economic viability, with a view to strengthen those practices as a basis for improvement. It is important to note that as a research framework, AI aims at ‘exploring what had worked could be a more helpful way of thinking about an issue than examining ways in which things had gone wrong’ (Reed, 2007, p. 7). In this case, AI focuses on collecting information on the successful strategies, and then analysing them. In the case of this study, good practices and strategies will be made available to current operating co-operatives for improvement and used to initiate new ones where there is potential.

### **3.3. Research Methods**

The primary research method for data gathering applied in this research is in-depth interviews with key respondents from each type of producer co-operative identified. Supplementing the interviews is document analysis based on secondary data obtained from government reports, newspapers and other contemporary documents produced that are publicly available.

Two methods will be used for data analysis: i) document analysis and ii) evaluative research. In document analysis, the documents as sources of data relate to the particular co-operative under investigation. The documents include official documents available from state websites, official documents from private sources, mass media output such as newspapers, magazines, television programmes, films, and other mass media that are potentially useful for scientific social research (Babbie, 2013). Official documents will also include documents produced by the targeted co-operatives. The aim of the document analysis is to provide context and meaning to the in-depth interviews conducted, adding quantitative data and operational details to the way these co-operatives are run.

Evaluative research is ‘concern[ed] with the evaluation of such occurrences as social and organizational programmes or interventions’ (Babbie 2013, p. 51). In this thesis, evaluative research analysis will adopt the AI framework. The producer co-operatives will undergo an evaluative assessment; however, the focus will be on what they do well and not what they fail to do. An example of an evaluative question asked is: what has enabled success as registered by the producer co-operatives? Follow up questions will relate to challenges faced by these co-operatives and their efforts to address such challenges in Timor-Leste. In the nature of AI, these challenges are explored in order for the co-operatives members to understand them and find ways for the improvement.

As indicated in section 3.2, this study will analyse the practices that enable sustainability, growth and success. In this case, sustainability refers to economic viability. This is when the producer co-operatives have enough funds and receive enough revenue to carry out their business. It is important in producer co-operatives to have enough revenue to meet production costs, as ‘they must succeed in the market-place’ (O’Connor, 2004, p. 3). This then links to the household level where the co-operatives’ members benefit from the co-operative business and are able to economically sustain their families. Secondly, growth of the co-operatives can be assessed through the revenue received by co-operatives when running their business.



When the revenue increase it indicates growth in the producer co-operative's business. Thirdly, the term success in this study refers to the overall achievements made by co-operatives. To return to the principles of co-operatives, success of co-operatives is not only about economic viability and growth. It is also about the contributions that co-operatives make to their members, such as capacity building, networking, and overall strengthening of the members' community. Thus, success in co-operatives includes being successful socially in their respective communities (O'Connor, 2004).

### **3.4. Research Participants**

Related to the research participants, given the geographical and logistical difficulties of travelling to some areas in Timor-Leste, this research intended to target two municipalities, one representing urban areas and the other rural areas. The municipality of Dili, as the capital of the country, represents the urban areas. Producer co-operatives in Dili feature handicrafts, and fishery. The municipality of Ermera was chosen to represent rural areas where agriculture co-operatives operate, such as in coffee production and horticulture. Conducting the study in these two municipalities would enable the study to get a picture of the different types of activities run by producer co-operatives in Timor-Leste overall. As this study focuses only on the two municipalities, some production activities are absent in the research. This is because not all types of the producer co-operatives exist within the two municipalities selected. However, as indicated below, the major types of the producer co-operatives in Timor-Leste are well represented within one or the other of the municipalities chosen. The main reason for choosing these two municipalities is the relatively large populations and diversity of producer co-operatives that exist within them.

Based on the secondary data on producer co-operatives in Timor-Leste provided in MCIA (2014), there were 42 registered producer co-operatives in 2014. Of this number, 18 producer co-operatives were active, 21 were inactive and 3 were para co-operatives. It is important to note that these 42 producer co-operatives were spread across all municipalities in Timor-Leste. The total number of registered producer co-operatives that exist within Dili and Ermera municipalities was 12. Of these 12 producer co-operatives, some have since become inactive. In order to maximise the data that could be collected, this research targets both the registered and the unregistered producer co-operatives in these two municipalities. Three types of producer co-operatives were included: agriculture co-operatives (horticulture and

coffee production), fishing co-operatives, and handicrafts co-operatives. Initially, the study was designed with the focus on producer co-operatives such as horticulture co-operative, coffee co-operatives, and fishing co-operative. However, during data collection, other types of producer co-operatives (namely handicraft co-operatives) were found to exist within the target municipalities (Dili and Ermera). These co-operatives have played transformative roles at the household level for economic development and offer lessons in good practices about co-operative operations. Therefore, this research was extended to include participants from handicraft co-operatives, including *tais*<sup>2</sup> weaving co-operatives.

When conducting the field research in Timor-Leste (15 January to 25 February 2020), interviews were conducted with 12 active producer co-operatives. However, after initial analysis of these interviews and the activities of the co-operatives, it was found that just ten of the producer co-operatives were eligible to be included for further analysis. These ten producer co-operatives were doing their production activities according to what is defined and expected for a producer co-operative to do. However, the other two co-operatives will not be featured for further analysis, because these two producer co-operatives have not yet started their production activities yet. Thus, ten producer co-operatives will feature in the analysis of the findings and discussion chapters of this thesis. It was not possible to replace these co-operatives with participants from other co-operatives, because of time limitations for the field research and the researcher's required return to Australia.

In addition to the ten interviews with representatives from producer co-operatives, two interviews were conducted with government officials with knowledge of the co-operative system in Timor-Leste. This was to increase understanding of the effective practices of successful producer co-operatives and the challenges they face.

These two interviews were with government officials at the Secretary of State for Co-operatives (SECoop) in Timor-Leste. The interviews with the government officials were conducted in order to clarify statistical data, gain information related to training and other support for co-operatives that is provided from the government, as well as access other information related to criteria for the co-operative registration process. The interviews with

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<sup>2</sup>*Tais*: Traditional Timorese clothes that are hand-woven by Timorese women.

the government officials clarified points regarding the current policy environment in Timor-Leste.

The data from ten interviews with representatives of producer co-operatives consists of three in agriculture (including coffee); two in fishing (focusing on fishing and the production of other fish products and seaweed); two handicraft co-operatives; three weaving co-operatives (focusing on *tais* weaving). This research project has included all types of producer co-operatives that exist in Timor-Leste, except those engaged in livestock farming. No livestock co-operatives are to be found in the municipalities of Dili and Ermera.

Despite the initial plan to just focus the research on two target municipalities, namely Dili and Ermera, three producer co-operatives were found and included that are not located in Dili. These three producer co-operatives are composed of one agriculture co-operative and two *tais* weaving co-operatives. The agriculture co-operative is based in the Ainaro municipality, and the other two *tais* co-operatives are located in the municipalities of Bobonaro and Oe-cusse. The justification to include these co-operatives in this study is because these three produce in their municipalities, but sell their products in Dili, the capital city. In addition, these co-operatives have some members in Dili to ensure the sales side operates effectively. In the case of the agriculture co-operative, which is located in Ainaro municipality, around 20% of its members are in Dili.

### **3.5. Data analysis**

The interview data was analysed by using descriptive qualitative methods, supported with quantitative data provided from the co-operatives themselves and from official government sources. In this process, the first step was the recording of data from the interviews in Tetum (national language), which was then transcribed and translated into English. A thematic analysis followed by identifying in the transcripts keywords of concepts and issues raised in the literature, and finally using AI framework to understand these themes. Then, the researcher evaluated and noted the results of the research, thus answering each research question.

As mentioned, the qualitative research data was analysed by using a thematic analysis. Bryman (2012) states that a theme is a category identified by the researcher through the

research process guided by the research focus. During the process of transcribing the interviews, the researcher identified various codes, which then formed the different themes. These themes provided the researcher with the foundation for a theoretical understanding of the data collected for a contribution to the literature relating to the research focus (Bryman, 2012). This was the basis for the data analysis procedure. Babbie (2013, p. 403) states that qualitative analysis is ‘a nonnumerical examination, and interpretation of observation, to discover underlying meaning and pattern of relationship.’ As such, the analysis focused on meaning and pattern relationships to understanding the potentials and challenges for co-operative development in Timor-Leste.

### **3.6. Insider researcher**

It is important to note that this study is conducted by an insider-researcher, which means the researcher is a member of the society where the researcher conducts the research (Unluer, 2012). There are three key advantages of being an insider researcher: ‘(a) have[ing] a greater understanding of the culture being studied; (b) not altering the flow of social interaction unnaturally; and (c) having an established intimacy which promotes both the telling and the judging of truth’ (Unluer, 2012, p. 1). The researcher of this project is a Timorese, therefore has a lived experience of the culture and tradition being studied and already has basic knowledge of co-operatives in Timor-Leste. It also means that the researcher understands the general social, cultural and political context of the country, which is helpful as these factors can inform how co-operatives develop. In addition, another advantage is that the researcher speaks the same language (Tetum) as the target informants which helps in the communication processes and the interviews.

On the other hand, being an insider researcher may also have some disadvantages, which one may need to overcome. One of the disadvantages could be a loss of objectivity in the research process. Insider-researchers may be at risk of automatically making incorrect and biased assumptions about the research topic based on prior knowledge (Unluer, 2012). However, research is an educational process that is concerned with human beings and their behaviours involving numerous players. Each one of them contributes to their perspective in the research process. This includes the researcher's own perspective. Therefore, if this situation is acknowledged, and the researcher is aware of their potential biases, it can produce a more

balanced and objective interpretation of the research data (Unluer, 2012). By having this awareness in the first place, the researcher can avoid bias in data interpretation processes.

### **3.7 Summary**

In summary, ten (10) producer co-operatives were selected to participate in this study. Data concerning these co-operatives and the general policy environment will be analysed to understand the potentials and challenges faced by producer co-operatives in Timor-Leste. The forms of business run by these co-operatives vary such as agriculture, handicrafts, and fisheries co-operatives. The next chapter will present the findings of the study and engages in discussion to answer the research questions.

## CHAPTER 4 FINDINGS AND DISCUSSION

This chapter presents findings of the field research that was undertaken in Timor-Leste from January to February 2020. Along with reporting findings, the discussion forms part of the elucidation of the findings, seeking to understand contextual and other factors that have led to the nature of findings. This chapter covers the following sections: 1) development of co-operative in Timor-Leste; 2) characteristic that enable co-operatives to succeed; 3) challenges faced by producer co-operatives; 4) positive potential of producer co-operatives; and 5) summing up. The details exploration of each section as followed.

### 4.1. Development of co-operatives in Timor-Leste

As noted in Chapter 1, co-operatives have been around in Timor-Leste since 1975. This study's period of interest is from 2002 to present. The reason is that pre-independence there are a myriad political and other factor that stood in the way of such initiatives. As stated previously in the literature review, the Village Co-operative Unit (KUD) was introduced in Timor by the Indonesia government in 1980s. However, in the implementation process, KUD did not really apply the principles of co-operatives, and rather than be democratically controlled by members they were controlled by the Indonesian government and its military (da Silva, 2008). As such, this study is interested in the re-ignition of co-operatives initiatives with the coming in of an independent nationalist government promising a conducive environment to development and change.

As part of the background of this study, Table 1.1 provided statistical data on co-operatives in Timor-Leste as at 2014. Table 4.1 presents updated data of co-operatives based on MCIA statistics available in November 2019. Table 4.1 has included data on para co-operatives because para co-operatives were not identified separately in the 2014 data.

**Table 4.1: Co-operatives in Timor-Leste, 2019**

| <b>Co-operatives types</b> | <b>Active co-operatives</b> | <b>Inactive co-operatives</b> | <b>Total co-operatives</b> | <b>Percentages of inactive co-operatives</b> |
|----------------------------|-----------------------------|-------------------------------|----------------------------|--|
| Credit Union               | 31                          | 28                            | 59                         | 47%  |
| Multisector                | 11                          | 12                            | 23                         | 52%  |
| Producer                   | 1                           | 11                            | 12                         | 92%  |
| <b>Total co-operatives</b> | <b>43</b>                   | <b>51</b>                     | <b>94</b>                  | <b>54%</b>                                   |

*Source:* Adapted from MCIA (2019).

Compared to 2014, Table 4.1 indicates that the number of co-operatives recorded by MCIA has decreased from 151 in 2014 to 94 in 2019. In addition, the number of inactive co-operatives increased by one. Inactive co-operatives are those co-operatives that no longer run their activities; as such they are considered to have failed. Based on this 2019 data, it is producer co-operatives that still have the highest percentage of inactive co-operatives.

In an interview with two staff members of the Secretary of State for Co-operatives (SECoop) on January 28, 2020, the interviewees explained that this 2019 data on the number of co-operatives included co-operatives that had at some point kept in contact with SECoop by sending their reports and inviting the SECoop staff to provide them with basic training on co-operative management. The interviewees also added that co-operatives that stopped sending reports to MCIA are not included in this 2019 data. The SECoop interviewees explained that this exclusion alone could not fully explain the decrease in the total number of co-operatives between 2014 and 2019. Other factors have contributed to the drop in the number of co-operatives. The representatives from SECoop explained that there had been a notable increase in the number of co-operatives between 2011 and 2014, because during that period there was a government subsidy provided through MCIA to support cooperatives. This government action prompted community groups to establish co-operatives. As stated by one of the SECoop interviewees on January 28, 2020:

...during this time the number of co-operatives increased because there was a public subsidy fund. So, there were lot of groups who decided to establish co-operatives so that they could have access to this public subsidy.

The above quotation also reveals a motivation to start co-operatives, that is, the financial advantages offered by the government to this form of business structure. However, the representative from SECoop argued that when the members of co-operatives have a genuine interest to establish a co-operative, the co-operative is likely to survive. If the motivation is just for receiving support from the government, then the chance of that co-operative becoming inactive is greater. This is because co-operatives are businesses that are owned and run by their members, for the benefits of their members. Therefore, co-operatives need to operate independently and should be able to perform the core principle of 'self-help', before expecting the support from outside.

By assessing the data provided by MCI, the researcher identified another factor. Of the ten active co-operatives involved in this study, it should be noted that only three were registered, namely: Dare Haburas, Boneca de Atauro, and Beata. Seven producer co-operatives were classified as para co-operatives; this is because they have not formally registered under MCI. The three registered co-operatives were identified in MCI 2019 data. However, the other seven para co-operatives were not found in this 2019 data. This further explains the statement made by the SECoop representatives that those co-operatives that have stopped sending their reports to SECoop, including those that have not had prior contact with SECoop, are not included in 2019 MCI data. There is clearly a difference between the number of actually existing active co-operatives and the number of co-operatives officially reported to exist. It indicates that the number of co-operatives (registered and para co-operatives) in Timor-Leste is likely higher than what it is captured by the state's statistical data. The reason for co-operatives not maintaining their communication with MCI will be further discussed in section on challenges.

**a. Overview of producer co-operatives featured in this research**

In order to have better understanding of each producer co-operative included in this study, Table 4.2 provides a short profile.



**Table 4.2. Profile of co-operatives**

| No | Name                                 | Year established | Number of members | Membership type | Activities   | Status of registration | Municipality      |
|----|--------------------------------------|------------------|-------------------|-----------------|--|------------------------|-------------------|
| 1  | Dare Haburas                         | 2004             | 50                | Household       | Horticulture   | Registered             | Dili              |
| 2  | Movimentu Koperativa Produsaun (MKP) | 2017             | 80                | Household       | Horticulture   | Para co-operative      | Dili and Ainaro   |
| 3  | Kohar                                | 2007             | 135 <sup>3</sup>  | Household       | Horticulture   | Para co-operative      | Ermera            |
| 4  | Boneca de Atauro                     | 2009             | 45 (F: 44, M: 1)  | Individual      | Handicraft (dolls, educational materials for children, toys, bags) | Registered             | Atauro, Dili      |
| 5  | Koperativa Sabão                     | 2019             | 7                 | Women           | Soap and handicraft  | Para co-operative      | Dili              |
| 6  | Bikeli-Ana                           | 2014             | 15 (F:13, M: 2)   | Individual      | Fishing  | Para co-operative      | Atauro, Dili      |
| 7  | Beata                                | 2004             | 10                | Women           | Fishing  | Registered             | Atauro, Dili      |
| 8  | Obra Ulmera                          | 2015             | 9                 | Women           | <i>Tais</i> weaving  | Para co-operative      | Dili              |
| 9  | Feto Buka Rasik                      | 2011             | 17                | Women           | <i>Tais</i> weaving  | Para co-operative      | Dili and Bobonaro |
| 10 | Dezenvolve Familia                   | 2014             | 24                | Women           | <i>Tais</i> weaving  | Para co-operative      | Dili and Oe-cusse |

Source: Author's data derived from interview responses; number of members in the table are as at the date of interview in 2020.

Regarding the year of establishment, the oldest co-operatives are Beata and Dare Haburas, which were established in 2004. The most recently established co-operative featured in this research is Koperativa Sabão, which was established in 2019. Overall, there are two different periods of co-operative establishment represented in Table 4.2. One group was established in the first decade after national independence and the other group in the second decade. As shown in Table 4.2, between the years 2002 and 2010, four co-operatives were established namely Beata, Dare Haburas, Kohar and Boneca de Atauro. The establishment of the other six co-operatives occurred between 2011 and 2019. So, this gives the idea (if this sample is representative of all co-operatives across the country) that co-operative development was greater in the second period from 2011 onwards.

<sup>3</sup> 135 households as members, composed of 43 permanent members and 92 non-permanent members.

### **b. Registration status**

The detail of the registration criteria can be found in Appendix C (Registration Criteria). In terms of the registration status, of the ten active producer co-operatives that participated in this study, three co-operatives (Dare Haburas, Beata, Boneca de Atauro) have registered under the MCIA, whereas the other seven co-operatives have not registered. The reasons these seven co-operatives have not registered will be explain in the challenges section. An examination of the registration criteria shows that most parts of the criteria were adopted from the *Decree-Law No.16/2004 of Law of Co-operatives* (Timor-Leste). This decree law was approved in 2004 and set out the guidelines for co-operatives' establishment and their daily operation. This includes the definition of a co-operative and its principles, which were adopted from the International Co-operative Alliance (ICA). As specified in these criteria, there are two-line ministries involved in this registration process. First is the MCIA and the second one is Ministry of Justice. According to s.16 of the *Decree-Law No.16/2004 of Law of Co-operatives* (Timor-Leste) the co-operative acquires its legal status with the registration of its institution. Also based on this legislation, co-operatives must be registered under the MCIA and Ministry of Justice.

### **c. Membership types of producer co-operatives**

Co-operatives have their own membership types based on agreed categories. Three membership categories identified in this study are: household or individual membership; gender; and permanent and non-permanent. Here data from the interviews with representatives of the ten co-operatives is discussed to better understand the types of membership these co-operatives have.

The first membership type category of co-operatives is either as individual, or household. The three agriculture co-operatives included in this research have household membership for their co-operatives. These co-operatives are Kohar (which has 135 household members); MKP co-operative focusing on growing vegetables and fruits (which has 80 household members) and Dare Haburas specializing in growing plants and flowers (which has 50 households). Despite having household membership as a co-operative, the 'one member, one vote' rule still applies when it comes to the decision-making within the co-operatives. This means that when it involves decision-making by voting, only one representative from each household can participate in the voting process. Based on the information from the interviewees, for agriculture activities, it is not possible to target an individual to do the work because

agriculture activities are collective actions, which often involves all the family members within a household. In an interview on February 15, 2020 with representative from Dare Haburas it emerged that:

In a household, when the husband decided to join, and then the wife also wanted to join, they would be under one household. This is because these two people will work together, produce something together, sell it together. So, we target household.

The other co-operatives featured in this research have an individual membership type. As Table 4.2 above indicates, the number of members in these co-operatives ranges from seven (7) to 45 members. Koperative Sabão has a total of seven (7) members; Obra Ulmera has nine (9) members, Beata has 10 members, Bikeli-Ana has 15 members, Feto Buka Rasik has 17 members, Boneca de Atauro has 45 members, and Dezenvolve Familia has 24 members. In addition, Boneca de Atauro has provided employment to 21 female workers, who have the potential to become members of the co-operative in the future.

The second category of membership is based on sex, which means the co-operative is open for both sexes to join or is just exclusively for women or men. In the handicraft co-operatives, particularly those that do *tais* weaving, the members are all women, and the number of members in each is relatively small (i.e. 9, 17, and 24 individual women as members). One similarity among the *tais* weaving co-operatives is that for a woman to join the co-operative she must have the skill and knowledge of *tais* weaving, or she must be willing to learn the skills before joining the co-operative. Traditionally, *tais* weaving is believed to be women's work, as it is passed on from one generation to the next generation, from the mother to the daughter (The Kindcraft, 2019). For this reason, the membership of *tais* co-operatives is comprised exclusively of women. The handicraft co-operative that focuses on soap making is also an exclusive co-operative for young women only. This is because these young women were the former students of Pro-Ema education and training. It is a training organization in which the young women and girls gain vocational skills.

The third membership category in this study applies only to Kohar in Ermera municipality. Kohar has two membership types: permanent and non-permanent members. The permanent members are those members who have initiated this co-operative (founders) and have made regular contributions since its establishment in 2007. On the other hand, the non-permanent members are those who joined after 2007. The non-permanent members have no rights to be part of the co-operative membership and cannot vote, yet they have the right to have access to

the fair price for their coffee and other social services provided by the co-operative. Further detail regarding this different category of membership will follow in the next section. In all the other nine co-operatives in this research, all members have the same rights in voting and decision-making.

**d. Motivation to establish the co-operative**

As the literature suggests, there are various motivations for establishing co-operatives. Three common reasons identified by O’Connor (2014) include first, to increase the bargaining powers; second, the advantages offered by the government to this form of business structure; and third the members see the opportunity to do a specific business by working together. Interviews with the ten producer co-operatives revealed these were indeed motivating factors for the initiation of their co-operatives. Drawing on O’Connor’s categories, Table 4.3 below provides detail for each co-operative and motivation of its formation.

**Table 4.3. Motivation to establish co-operative**

| No | Name of co-operative                 | Motivation                          |  |  |
|----|--------------------------------------|-------------------------------------|--|--|
|    |                                      | To increase bargaining power        | Advantages from the government support | Business opportunity when working together |
| 1  | Dare Haburas                         | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/>    | <input checked="" type="checkbox"/>        |
| 2  | Movimentu Koperative Produsaun (MKP) | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/>    |  |
| 3  | Kohar                                | <input checked="" type="checkbox"/> |  | <input checked="" type="checkbox"/>        |
| 4  | Boneca de Atauro                     | <input checked="" type="checkbox"/> |  | <input checked="" type="checkbox"/>        |
| 5  | Koperative Sabão                     |                                     |  | <input checked="" type="checkbox"/>        |
| 6  | Bikeli-Ana                           |                                     | <input checked="" type="checkbox"/>    | <input checked="" type="checkbox"/>        |
| 7  | Beata                                |                                     |  | <input checked="" type="checkbox"/>        |
| 8  | Obra Ulmera                          |                                     |  | <input checked="" type="checkbox"/>        |
| 9  | Feto Buka Rasik                      | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/>    | <input checked="" type="checkbox"/>        |
| 10 | Dezenvolve Família                   | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/>    | <input checked="" type="checkbox"/>        |

The most frequent motivation to start a co-operative was because the members saw the opportunity to do business is greater if they work together. To increase bargaining power was the second highest motivation, then followed by the advantages from the government support. There were other motivations for starting their co-operatives that were mentioned less commonly by interviewees, including to create job opportunities, and to preserve the *tais* weaving tradition as a cultural heritage that needs protecting and passing on to the next generation.

The case of the handicraft focused Koperativa Sabão, which is composed of seven young women from 20 – 24 years of age, has a very specific motivation. These young women were part of the training programs. Pro-Ema is an organization established in 2018 with the aim to support and empower adolescent girls and young women in Timor-Leste through its EMA program (Pro Ema, n.d.). This program is composed of various professional training courses that include administration, finance and office management, art and handicraft production including soap making, gastronomy, and hairdresser. At the end of their course, students have the opportunity to do their internship with other organizations including with the government, hairdressers and restaurants. It was hoped that this would give the beneficiaries tools and opportunity to develop skills to work in the labour market upon completion of their training program.

From its inception in 2018, Pro-Ema has attracted more than 100 girls and young women to the program. Some beneficiaries were able to find employment upon completion of their 6 to 12 months of training. However, this opportunity did not unfold for all the graduates, as some struggled to have access to employment opportunities with either the government, non-government organizations (NGOs<sup>4</sup>), or local businesses such as restaurants and hairdressers. Therefore, instead of letting the graduates struggle on their own, these young women and their mentors recognized that a co-operative business model could provide an opportunity for them to work together to produce something. The lack of alternative employment options motivated these young women to develop this co-operative. As stated by a Koperativa Sabão member in an interview on February 5, 2020 ‘these young women have completed their training, yet, they have nothing to do and just stay at home. Let's get them together and start a soap production co-operative’.

Another example of employment creation and training is from the handicraft co-operative, Boneca de Atauro. It has a similar motivation to that of Koperativa Sabão. Boneca de Atauro has 45 members including one man, and the co-operative also provides employment to an additional 21 workers composed of 20 women and 1 man. Based on information obtained from the interview, the processes to start this co-operative began in 2006 through the work of

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<sup>4</sup>Non-governmental organizations, which are non-profit, voluntary citizens' group which is organized on a local, national or international level.

missionaries from Italy. They started by conducting research on the interests of women who live on the island of Atauro, which lies offshore from Dili, but who do not work on small farms and fishing (the main sources of livelihood on the island). Their research found that most of the women in Atauro sew in their spare time. The idea of forming a co-operative was shared by the missionaries with the women, and 25 women came together to learn the techniques and method to produce dolls and to be able to run the business of the co-operative. Boneca de Atauro produces dolls that are now well-known within the country and have also reached some international markets. The interviewee from Boneca de Atauro (February 6, 2020) explained that this co-operative brings together women to improve their sewing skills, enable knowledge sharing, and support their family earnings at the household level. In addition, it has also enhanced women's role in preserving Timorese culture and strengthening women's social life in their community. Thus, this explains the contributions the co-operative makes in economic, social and cultural aspects of the members' community.

For agriculture co-operatives in this study, the primary motivation mentioned by interviewees was to increase their bargaining power, especially for coffee producers. For Kohar as a coffee producer co-operative, after the restoration of Timor-Leste's independence in 2002, community members in Sakoko regained access to their farming land, and recognised that they needed to sell their coffee at a fair price. This required strong bargaining power. It was impossible to negotiate with buyers a strong fair price as individual farmers. Therefore, this motivation pushed them to establish their co-operative Kohar in 2007. In addition, the struggle for land reform in Ermera has also become one of the motivations.

Dare Haburas had a similar bargaining power motivation. As early as 2002, an individual in the village of Dare (in the northern outskirts of the city of Dili) started to plant various plants and flowers as a leisure activity. This person started to sell the plants and flowers in late 2003, however the business result was not as good as expected. Despite this, by 2004, the community in Dare were interested in this form of production and business activity and saw this as a business opportunity if they were to come together. They started to learn the techniques for growing plants and flowers from this person. Accordingly, the community members decided to come together to establish a co-operative and to turn this activity into a business opportunity. This would allow them to have control over the market price and access a permanent place to market what they produced. By 2005, the demand from buyers in Dili for flowers and plants increased as the product gained recognition in quantity and quality.

This would have been impossible to do individually as separate farmers, yet, was possible through uniting their forces together.

#### **4.2. Characteristics that enable co-operatives to succeed**

A successful co-operative carries various characteristic that support them to achieve their goals and to maintain their existence as co-operatives. In this research, producer co-operatives success is defined as those co-operatives that are still operating and doing their business as co-operatives. The research found that there were nine characteristics and practices that enable the success of producer co-operatives. There are: a) strong work ethic of co-operative members; b) open communication between co-operative members; c) members receive benefits from the co-operative's activities; d) central central organizational figure(s) within the co-operative; e) product development and quality control; f) education and training; g) responding to market demand; h) access to market; and i) networking. These will now be discussed in more details.

##### **a. Strong work ethic of co-operative members**

In an interview conducted with a member of Boneca de Atauro on February 6, 2020, the member explained that in daily work practices within the co-operative being patient and having a volunteer spirit are essential. As she described: 'our members put work first before money [...] being patient, the sense of loving what you are doing, and volunteering'. The idea of volunteering as defined by the interviewee meant the willingness to learn first the skills, without payment at the beginning. Once a member has learned the skill, then she or he will be paid based on their working hours. Other essential work ethic qualities reported to be important for the successful running of a co-operative are seriousness, willingness and work discipline. Producer co-operatives cannot achieve great success if the members treat this co-operative as a part-time job only. As the representative from MKP (Personal communication, February 12, 2020) stated: 'Seriousness and working discipline' are essentials for co-operative daily operation. This work must be treated by members as a main job, and it requires the same working discipline that applies in offices. If the co-operative workers/members do not embrace these work ethic elements, then the co-operative will encounter various problems and will then become inactive.

### **b. Open communication between co-operative members**

When discussing the characteristics that enable the success of co-operatives, the members share the importance of having good and open communications between members. For members, it is important to create a space that will enable co-operative members to communicate their ideas. It is not about the written regulations that matters most; instead, flexibility within the co-operative is critical. If there is an issue within the co-operative, then the best way to overcome this problem is by sitting together and communicating, i.e. talking to one another to find the solution. Interviewees from nine of the ten co-operatives stressed that communication between members and listening to one another are very important. For example, the representative from Beata explained: ‘We sit together and overcome the problem together’ (Personal communication, February 7, 2020). This is in agreement with Paulo Freire’s concept of dialogical, or problem-posing, method of education, where it focuses on communication as a dialogic activity (Thomas, 2009). It is through these exchanges, as the respondent indicated, that the co-operative membership finds solutions to their challenges and transform their conditions.

Another aspect of successful communication shared by the interviewee from Boneca de Atauro highlighted that the co-operative takes care of its members as if they were family, and when something is not right, they would come together and discuss the matter in order to find the best solution. She added: ‘We take care of each other as family, but we also argue’. Fixing misunderstanding between members is crucial so that everyone can work and move together as a co-operative. This point is also in agreement with the literature in conflict resolution as Riegel’s dialectical theory of development offers an account that ‘describes how conflict can lead to creativity and development in both individual and society’ (Pammer & Killian, 2003, p. 34). In this case, conflict is not all negative; it can be an opportunity to explore ways for improvement, as experienced by this co-operative.

### **c. Members receive benefits from the co-operative’s activities**

The literature highlighted that co-operative is owned and run by its members, with all the benefits accumulating to the members. This has to happen within a co-operative. Around 127 individual and 265 household members gain direct benefits from being part of the co-operatives featured in this research. In addition, Boneca de Atauro provided jobs to 21 workers, who may become members of this co-operative in the future. This example shows that the co-operative industry does not have to just benefit its membership but can also



provide job opportunities to other community members. In addition, Kohar as a coffee producer co-operative has shown how the principle of co-operatives as ‘Principle #7 concerns for the community’ is being implemented for the benefit of their entire community. Kohar brings together all the coffee producers in the sub-village of Sakoko, village of Ponilala in Ermera municipality, to work together and demand fair price for their coffee. Even non-permanent members benefit from this bargain for fair price.

#### **d. Central organizational figure(s) within the co-operative**

Based on the data from interviews, a key factor that contributes to the success of co-operatives is having one or two members within the co-operative who have the knowledge and expertise to ensure the co-operative works as a well-functioning organization. This situation was found across all types of producer co-operatives involved in the study, and was particularly said to be important in Obra Ulmera, Boneca de Atauro, Dare Haburas, MKP, and Kohar. Such key person(s) play an important role to make sure the daily operation of co-operatives runs smoothly. Aside from having the knowledge and skills related to the production activities and marketing, such key persons also have official administrative position in the co-operatives. An example is Kohar co-operative, which has two key persons who both have the knowledge of community organising and mobilising, as well as financial and business knowledge.

For Obra Ulmera, the key person (who is also the coordinator of this co-operative) also plays the critical role in teaching weaving skills to the women in the Ulmera area. The members of Obra Ulmera stated that they would not be able to weave if not for her. The co-operative now has nine members, and eight of these women did not have weaving knowledge and skills before joining this group. Now, Obra Ulmera has 9 members who are well-trained in *tais* weaving.

#### **e. Product development and quality control**

Most of the producer co-operative interviewees emphasized the importance of product development and quality control for their success. The interviewees agreed that before attracting market interest to purchase the products, the important thing that needs to be done first is to invest within the co-operatives to be able to produce a quality product. This idea of the importance of quality control applied broadly to all the co-operatives in this study, from agriculture co-operatives to *tais* weaving and fisheries co-operatives. For example, in *tais*

weaving co-operatives, because this weaving is done by individual woman, it means that certain criteria and techniques must be acquired by each member to achieve the same quality in the final products. Therefore, product development and quality control during the weaving process are important elements for success.

For Kohar as the coffee producer co-operative, quality control during the coffee processing is important. This includes the processing of the coffee cherry into coffee beans, and also quality control to ensure that during this processing the organic grown coffee cherry remains organic without any contamination. Contamination might come from the use of chemical products during the coffee processing from coffee cherry to parchment. The whole process from harvesting to drying and packing must follow certain standards. Therefore, product development and quality control are essential for members of the coffee producer co-operative. Closely related to issues of product development and quality control are training and education for members of the co-operatives.

#### **f. Education and training**

Representatives from all the producer co-operatives agreed that education and training are crucial for the success of their co-operatives. This is consistent with the MCIA (2013) and ICA (2018b) principles of co-operatives that both identify this as ‘Principle #5 on education, training, and information’. While members of a co-operative might share an area of interest (such as farming, fishing, or sewing), training and education are needed to improve the quality of the co-operative’s products and business activities. Training undertaken by the co-operatives in this research covered various aspects such as improving product development (including with specific techniques of producing organic compost, processing organic coffee, and identifying natural colour from the plants for *tais* production), quality control, co-operative management, and business strategies (specifically, finance management)..

Training was reportedly carried out in two ways, internally and externally. Internal training means the knowledge, experiences, and work techniques are shared among the co-operative members. This can be seen in the practices in Obra Ulmera, Beata, Dezenvolve Família and Feto Buka Rasik. External training happens when the co-operative involves persons and organisations with resources to come from outside the co-operative and share their knowledge with the co-operative members, as can be seen in MKP, Boneca de Atauró, and Kohar. In some cases, the co-operatives send their members to other communities to attend

training, including in Dili and in the case of MKP overseas. In most co-operatives both internal and external training programs both apply.

External institutions that become involved in such training are often linked to the networks these co-operatives had formed in the past. The external organizations that regularly provide training support to the co-operatives under study are: MCIA, Alola Foundation, PARCIC<sup>5</sup> and Jesuit Social Services. MCIA is the government department that focuses on assisting small businesses to start-up, including co-operatives. Co-operatives in this study that received training from MCIA were: Boneca Atauro, Dare Habuas, MKP, Feto Buka Rasik and Dezenvolve Familia. PARCIC has worked closely with all three producer co-operatives on Atauro Island and with one in Ermera, providing training related to product development. Alola Foundation worked closely with two *tais* co-operatives, Dezenvolve Familia and Feto Buka Rasik. The Jesuit Social Service group in Ulmera worked closely with Obra Ulmera.

High standards also apply to fishing co-operatives. Interviewees with the two fishing co-operatives stated that they have attended valuable training on how to produce a good quality dried-fish, and *dodol* (a type of snack made out of seaweed). Following their training, they try to maintain the high quality of their products and use only organic materials in their processes. Interviewees from both Beata and Bikeli-Ana mentioned that their members had grown up fishing, and so it is a skill that they all have. However, regarding the food processing techniques for the fish and seaweed, the members were trained to master the skills. Some of the co-operative members received their first training from a co-operative during the period of the Indonesian occupation of Timor-Leste. After that training, they could apply the skills and they continue to use them until today.

#### **g. Responding to market demand**

In doing their business, producer co-operatives agree that it is important to respond to market demand. For farming co-operatives, despite involving farmers that have prior experience in growing foods and plants, they need to find ways to do so in a way that will respond to the demands of the market and at the same time ensure good quality (Interview with MKP,

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<sup>5</sup> Pacific Asia Resource Centre Interpeoples' Cooperation (PARCIC) is an NGO that focuses on inter-people' cooperation and Fair Trade (PARCIC, 2012)

February 12, 2020). MKP members have to know good practices for how to plant, packing vegetables and fruits, and keeping produce fresh for marketing.

Adapting prior skills to meet market demand also applies to the *tais* co-operatives Feto Buka Rasik and Dezenvolve Família. In interviews (February 2020), representatives explained that despite the fact that they grew up weaving, the members realized that they need to explore more techniques and ways to improve the weaving quality, explore more natural colours, and maintain the originality of the woven patterns specific to their local areas, as these product qualities were what customers were demanding. As one interviewee asserted, ‘making *tais* by hand is not only about weaving, but also about the stories carried within the art works produced’, as these stories (shared in the unique patterns of the woven *tais*) attracted demand (Representative of Dezenvolve Familia, personal communication, February 18, 2020). Being able to meet market demand is essential for producer co-operatives to be economically viable.

#### **h. Access to market**

One of the characteristics said to be important by all ten (10) co-operatives is access to markets. Regarding access to market, some co-operatives have worked over the years to establish permanent buyers or distributors. These co-operatives with permanent buyers/distributors are identified below:

- Kohar sells coffee parchment to PARCIC, a Japanese fair-trade organization that is working in Timor-Leste. Kohar thus gains access to an international target market in Japan.
- Dare Haburas has a permanent display stall inside a local market in Dili, called Manleuana market. This place is widely known by people in Dili as a place that sells plants, flowers and organic fertilizer. They have had this access since 2009.
- Obra Ulmera *tais* weaving co-operative has a permanent buyer in the Jesuit schools with their connections nationally and internationally, such as Singapore and Australia.
- MKP has a permanent shelf display in supermarkets in Dili for their fresh vegetables and fruit.
- Dezenvolve Familia and Feto Buka Rasik are *tais* co-operatives that have linked with the Alola Foundation for marketing purposes. They also participate in Alola Foundation’s annual fair held in December.

Product promotion also is essential to reach wide markets. Since it is expensive to have promotion on television and radio in Timor-Leste, some co-operatives have instead gained success through the promotion of their products by using social media, particularly Facebook. In Timor-Leste, Facebook is the most popular type of social media and source of information and news. It is quite common for individuals and for organizations to have Facebook accounts, therefore it becomes an easy way to connect to people and their markets of interest. For example, five co-operatives have strong presence on Facebook, these co-operatives being Boneca de Atauro, MKP, Koperativa Sabão, Kohar and Bikeli-Ana. The interviewees from these co-operatives acknowledged that Facebook has helped them in promoting their products and gradually attracting more consumers.

For the other five co-operatives that do not use Facebook, they reported the importance of their connection with other organizations or individuals to help them promote their products. Dezenolve Familia and Feto Buka Rasik are connected to Alola Foundation, which shares information with the public about their annual fair, via their Facebook page and website. Obra Ulmera has a connection with the Jesuit Social Services in Ulmera, and this connects them to the consumers. As for Beata, they have a contact person in Dili who plays a role in marketing and informs the co-operative members when they have orders from consumers in Dili. Finally, Dare Haburas has gained permanent access to a place in the Manleuana market to sell their horticulture products.

All the above techniques are ways being used by these ten co-operatives to have access to markets and build their success. It is mainly a local market that the co-operatives reach. Some tourists from abroad come into the country and purchase the co-operatives' products. However, it does not mean that these co-operatives have regular access to the international market.

### **i. Networking**

Most of the interviewees agreed that networking is important in running a co-operative and it is essential to build networks with other co-operatives, government bodies and NGOs. Networking plays an important role for co-operatives to remain viable in the long run. Networking has resulted in various capacity building projects, training, and the sharing of knowledge within the co-operatives, and between the co-operatives and other organizations.

Networking has also connected co-operatives to consumers. Network building and strengthening have been practiced by all the ten producer co-operatives in this study.

As an example, Kohar is based in Ermera and has successfully built networks with two training organizations in Dili, Kdadalak Sulimutuk Institute (KSI, promotes alternative social transformation) and PARCIC. Kohar has benefited from the training organized by these two organisations. As another example, Boneca de Atauro has a program to strengthen their network through an Artist in Residence program, where they welcome artists from various countries to come and teach them new skills and knowledge. These artists pay for their own international flights, and their accommodation in Atauro are covered by Boneca de Atauro. As the Boneca de Atauro member stated ‘we have artists from Germany, Australia, Indonesia; they made bags and taught us many new skills’ (Personal communication, February 6, 2020). The visiting artists spend up to three months working with women in Boneca Atauro to teach new or improved techniques. This also enables Boneca de Atauro to have connection with consumers in countries that the artists visit from. Finally, MKP has built networks with government line-ministries such as MCIA, and Ministry of Agriculture, as well as supermarkets in Dili. The network they built with the government has supported MKP to access some training and agriculture material to support their agricultural activities.

In summary, the producer co-operatives featured in this research identified nine characteristics for producer co-operatives to be successful. Some co-operatives appear to be stronger in one or more characteristic compared to others in the study, but discerning this in a small qualitative study like this is not possible. Co-operatives with stronger overall characteristics are Kohar and Boneca de Atauro, as their growth, success and economic viability testifies. Kohar had provided 135 households in Sakoko sub-village to have access to fair price for the coffee, and Boneca Atauro has provided jobs to 45 members and 21 non-members.

#### **4.3. Challenges faced by producer co-operatives**

As with any other economic activities in developing countries, co-operative institutions can encounter many challenges in the wake of shifting national and world economies (Oktaviani, 2004). Challenges can be defined as the difficulties faced by co-operatives that need to be

addressed if the co-operative is to remain viable and strong. There were common challenges identified within this study of the ten producer co-operatives in Timor-Leste. The challenges identified can be classified as both internal and external. In this study, external challenges refer to constraints in the business environment, such as government regulatory procedures and regimes, that may affect the co-operative's performance; whereas internal challenges are the constraints and barriers pertaining to the workings of the co-operative as an organization. These are elaborated on below.

#### **a. External challenges faced by co-operatives**

There are three common themes related to external challenges identified within these ten producer co-operatives. These external challenges are difficulty in access to the market and lack of infrastructure; secondly, lack of understanding of the role of producer co-operatives and support needed; and difficulty in fulfilling the registration process.

- **Lack of infrastructure and difficulty to access broad market**

The first external challenge faced by producer co-operatives is difficulty in access to local markets in the whole nation, as well as to international markets. The majority of these ten producer co-operatives identified that access to markets is a challenge for producer co-operatives in general, and this issue is related to poor national infrastructure. For producer co-operatives, access to markets is very important for their business activities, otherwise it is hard and almost impossible to maintain the existence of these co-operatives. The products that are being produced (such as coffee, vegetables, plant, fish including fish and seaweed products, handcrafts and *tais*) ultimately need to be sold in the market. It is true that these producer co-operatives have their own local target market and consumers in the areas that they are based; however, this alone is not enough access to markets to survive. However, accessing the wider market is difficult because, first markets (or other shops) are not necessarily close to the production areas, and some co-operatives are located quite far from their target markets (for example MKP co-operative whose target market is consumers in Dili). In addition, poor infrastructure within Timor-Leste, such as poor road conditions and limited access to transportation, have added to the list of the external challenge's producer co-operatives face in order to access markets.

Unique challenges were raised by the interviewees from the fishing co-operatives on Atauro island. There are two fishing co-operatives on the island, Beata and Bikeli-Ana. These two

co-operatives target a regular market close by, in Villa (the main village on the island). However, this market only occurs on the market days, which are on every Thursdays and Saturdays. Those are the days when public transport (a ferry) travels to and from Dili and Atauro Island. During these two days, many visitors from the capital city of Dili on the mainland of Timor-Leste come to the island. As these visitors often have greater income than locals, these are the days for the transactions to happen, where the co-operatives would be able to sell their products (such as fresh fish, dried-fish and other fish as well as seaweed products). On other days of the week, the co-operatives target only the market in their local areas, such as the local school and two main restaurants on the island. However, the local market is very small to rely on. Moreover, travelling to Dili on a regular basis is not an option for the members of these co-operatives, because there is no one central market in Dili for their products and no place for them to stay when in Dili.

For agriculture co-operatives in Timor-Leste, access to markets has been a great challenge for a long time. Additionally, the willingness of the government to invest in local production is still very low. Some products are being produced inside the country, and yet the government purchases these same products from outside the country. As a member of Dare Haburas explained in an interview on February 5, 2020: ‘the government continues buying the plants from Bali for the gardens [in Dili]’, despite the fact that high quality plants are available from local producer co-operatives.

The Boneca de Atauro handicraft co-operative faces an additional challenge in relation to the price of their products in the local market. As a member of the co-operative claimed, ‘the price of our product is too expensive for local people to purchase’ (Personal communication, February 4, 2020). Therefore, most of the time buyers are foreigners and wealthier Timorese, who purchase these products as gifts for their friends and family. Yet, it is not easy for Boneca de Atauro to access the international market as there are barriers regarding regulations and legal procedures for product export. Reducing the price to make their products more accessible to local consumers is not an option, as a member from Boneca de Atauro explained:

...we recently discussed the price, because people think that when we talk about price, this price is for the international [market] only. However, we also need to consider the [products’] quality, the working time, the materials, and none of these are easy (Personal communication, February 6, 2020).



The same challenge was also raised by Dezenvolve Familia. Normally the *tais* that they produce are sold for between US\$60-US\$100. Given the minimum wages in Timor-Leste is US\$115 per month (Government of Timor-Leste, 2012), not many local people can afford it. To respond to this challenge, the co-operative has found a way to make a smaller *tais* called *selendang*<sup>6</sup>, which sells for between \$2 to \$10 each. However, the co-operative also is still thinking on the best ways to have access to broader markets.

These are the challenges regarding lack of infrastructure and difficulty to access markets that have hindered producer co-operatives to perform better, productively and profitably.

- **Lack of understanding of the role of producer co-operatives and the support they need**

Producer co-operatives are not as popular as credit union co-operatives or savings and loan co-operatives in Timor-Leste, as is evident in Table 1.1. Most of the time, when political discussion on co-operatives arises, savings and loan co-operatives dominate the discussion arena. Many actors involved in co-operative development (such as government and NGOs) still focus discussion on credit union or savings and loan co-operatives, rather than on producer co-operatives and their production/consumption activities. As a result, producer co-operatives' members face the challenge of explaining the concept of 'producer co-operatives' to other people who are not members. This lack of understanding of producer co-operatives, including from strongly activist organizations and government actors, severely limits the ability of such co-operatives to gain support outside their own membership. A co-operative member noted an incorrect understanding: 'they think [producer] co-operatives are owned by an institution, and we, the workers are here just to work for them' (Personal communication, February 6, 2020).

In addition, some interviewees also stressed that there is still lack of understanding within government institutions when dealing with producer co-operatives. There is no clarity as to how the government should support co-operatives in a healthy way to ensure that co-operatives are viable in running their daily activities and businesses. Moreover, the SECoop representative also stated that if the support from the government through public subsidies

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<sup>6</sup> *Selendang*: literally translates to scarf in English.

does not consider carefully how best to support co-operatives, then the chance for co-operatives to fail is high, and it is even higher for producer co-operatives.

There can be confusion about government support. Two representatives from horticulture co-operatives stated there are too many government institutions and departments that focus on the same issue, with no clear role allocation in their interventions. As a result, government support is allocated haphazardly leading to some co-operatives receiving help inequitably. Co-operatives are formally under the care of multiple government departments, namely: Secretary of State of Co-operatives (SECoop), Ministry of Commerce, Industry, and Environment (MCIA); Ministry of Agriculture; Secretary of State for Vocational Training Policy and Employment (SEPFOPE); and Secretary of State for Equality and Inclusion (SEEI). The SECoop representatives pointed out that in their conversation regarding producer co-operatives with staff of the Ministry of Agriculture (MofA), a staff member of Ministry of Agriculture queried: ‘Why does MCIA do the work of the Ministry of Agriculture?’ (Personal communication, January 23, 2020).

These challenges set out above indicate the need for clearer policy and mechanisms regarding support for producer co-operatives. Such support needs to enable co-operatives to access resources for a more productive performance, which would make significant impact on their survival and growth.

- **Difficulty of the registration criteria and process**

As mentioned previously, of the ten active producer co-operatives that participated in this study, only three co-operatives were registered under MCIA. This leads us to question the barriers to co-operatives registering under MCIA. Regarding the registration criteria, the interviewees from the three registered co-operatives admitted that the registration criteria was difficult to meet, and the registration process was not easy. Despite this, they were able to complete the registration process.

On the contrary, of the seven co-operatives that have not registered yet, or fall under the category of para co-operatives, three co-operatives have unsuccessfully tried to register before, namely Kohar, Feto Buka Rasik and Dezenolve Familia. Interviewees from these co-operatives explained that the main reason for them to discontinue this process was due to the registration criteria being too difficult to fulfil. In addition, the registration process took a

long time. Moreover, these three co-operatives are located outside of Dili, that is, in Ermera, Bobonaro and Oe-cusse. The sheer long-distance travelling to the capital for the registration process, which is itself a taxing process, poses a discouraging effect. As an interviewee from one of the co-operatives explained, they spent almost US\$600 for the registration process, as they had to pay for the transportation costs to travel from Ermera to Dili, and food for those travelling, for multiple visits during this process, which took six months. However, in the end, they were not able to register their co-operative because they still needed to work more on the co-operative statute and other related formal documents. The representative from Kohar co-operative (Personal communication, January 25, 2020) reasoned that ‘being registered or not registered is a choice, and this choice has no great impact on the co-operative’s daily performance’. As result of the complications along the way, Kohar members decided to stop the registration process.

The other four co-operatives, namely: Bikeli-Ana, MKP, Obra Ulmera, and Koperativa Sabão, are planning to register but they have not started their registration process yet. Based on the interviews conducted with members of Koperativa Sabão on February 5, 2020 and Obra Ulmera on February 18, 2020, these two co-operatives are not certain when they will start the registration process. Further, the representatives expressed the sentiment that these two co-operatives were uncertain if they really wanted to register. In relation to the other two co-operatives, MKP and Bikeli-Ana, the representatives said they are certain that they need to register, however, they do not have enough time to deal with the registration process, as they instead need to focus on their production activities. As the member of MKP stated in an interview conducted on February 12, 2020 ‘we do not have time to start the registration process. This is rainy season, so we need to start planting’.

The uncertain importance of registering co-operatives discourages registration. There is also the burden on registered co-operatives to submit a report to MCIA every six months, which adds to these difficulties. More than half of the co-operatives represented in this research raised this issue of frequent submission of reports in interviews. The co-operative members do not see the benefits of registering with the government. As a result, the idea of entering the registration process is placed on hold.

In addition, once registered, dealing with the government’s reporting demands is another burden on co-operatives. In the case of producer co-operatives, it is not easy to prepare a

report that meets the government's standards, for example, the requirement that reports be typed and printed. Most of these producer co-operatives do not even have access to computers, let alone work with them.

#### **b. Internal challenges faced by co-operatives**

The study identified two common themes related to internal challenges facing producer co-operatives in Timor-Leste. These are lack of facilities to work as a group, and lack of finance and management skills of co-operative members.

- **Lack of facilities to work as a group**

When discussing challenges internal to their co-operatives, interviewees expressed the idea that the main facility they need to work successfully as a group is a shared workplace. Half of the co-operatives in this study have no access to a shared workplace to hold their production activities. As a result, each member must work in their house and come together when they have completed their tasks.<sup>7</sup> Particularly for all three *tais* weaving co-operatives involved in this study, it is common for members to work in their own house. As one of the co-operative representative's stated: 'I wish we could have a place to come together, so that we can do this and that. Yet now we just work in our houses' (Personal communication, February 20, 2020).

This lack of a shared workplace has also impacted on the quality control process, as it is difficult when members are working separately in their own houses. To take the example of the *tais* weaving process, co-operative members would receive the orders from the consumers, then they would come together and discuss how to do it, then have a person work on a sample. Once everyone confirms that they understand how to weave the design as ordered, then the actual weaving work is carried out in each member's house. Three *tais* co-operatives (namely Obra Ulmera, Dezenvolve Família, and Feto Buka Rasik) apply this model of working, as they have no shared workplace yet.

The same challenge is also faced by fishery co-operatives Beata and Bikeli-Anan. Both co-operatives have no private shared workplace. As a result, they utilise the house of a member

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<sup>7</sup> It may be an important point here to reflect that although the members saw this as a barrier to working as a team, it may not be seen this way in the current COVID-19 (Coronavirus diseases) times, when socially distancing is encouraged. However, perhaps access to the internet and tele-communication facilities might be an important boost to their teamwork while they operate from home. This technology is not readily available at present in much of Timor-Leste.

to do their production activities. For Beata, they normally use their co-ordinator's house for their daily activities, yet sometimes, they also need to work from their own homes. Bikeli-Anan now utilises a centre that is part of the village administration's property to run their activities. However, the members have no control over until when they can use the property. In addition, the property is in poor condition. Thus, the need to have a shared workplace is of ongoing importance for co-operative members.

- **Lack of management and financial skills**

All co-operatives members who were interviewed acknowledged that management and financial skills are important for their co-operative's development, and a lack of skills in these two areas can pose barriers for co-operatives to flourish. This relates to the internal financial and management systems in co-operative business. Now, Kohar and Bekili-Anan members just use a very basic system to record their cash flows, using a book to record their financial transactions. However, the interviewees reported that they are concerned that in the long run this process will negatively impact their daily work as there might not be accuracy in their financial reports to the co-operative's members. The representatives from Kohar and Bikeli-Anan agreed that lack of management and financial skills will eventually cause distrust among co-operative members. A representative of Kohar in an interview stated, 'we need to have bookkeeping that is clear, so that our members can feel satisfied' (Personal communication, January 25, 2020). Therefore, bookkeeping and financial literacy are essential to ensure the transparency within the co-operatives. Trust among members is one of the important factors that sustain co-operatives. As such, investing in management and financial skills are important for co-operatives to grow and do their business successfully. The co-operative members are open to the idea of exploring and linking with other external sources to provide their co-operatives with the financial and management training needed.

Additionally, four co-operatives (namely Dare Haburas, Dezenvolve Familia, Feto Buka Rasik and MKP) agree that everyday and management level members of the co-operatives need to have financial and management knowledge to support the co-operative's daily operations. Members need to understand the business processes and how finance activities are being carried out and documented. As O'Connor (2004, p. 3) states, for co-operative to compete successfully within the market and with other types of business, co-operatives 'must do all the things that other business do at least as well as those other businesses'. These finance and management needs are acknowledged by these co-operatives.

#### **4.4. Positive potential of producer co-operatives**

By looking at the characteristics that enable success and the challenges faced by producer co-operative, the co-operatives members have also identified the positive potential of producer co-operatives to move forward in Timor-Leste's context. These are set out below:

##### **a. Potential to support socio-economic wellbeing of co-operative members**

The members of the ten co-operatives highlighted the potential of co-operatives to support household level economies through income generation. Further, co-operatives are deemed to have the potential to promote social cohesion; strong bonds among co-operative members are envisaged to spill over to members of the community beyond the co-operative membership. For this to happen, the co-operative members believed that there is a need to strengthen internal management in co-operatives and to ideally find a way for co-operatives to work without too much dependency on government support (Dezenvolve Familia, Personal communication, February 18, 2020). In addition, one of the representatives from SECoop also stated: 'more people and government institutions are interested in co-operatives, especially producer co-operatives. Despite low numbers of registered co-operatives, those co-operatives exist within the community, and are doing their work.' (Personal communication, January 28, 2020)

Co-operatives have supported their members' socio-economic wellbeing, and the benefits have flowed on to the families of members as well as the communities where the co-operatives exist. Co-operatives have proved to their members that they can bring direct benefits. As a result, more members are attracted to participate in the cooperative sector. It can be argued here that the promotion of the co-operative sector is an economic activity that the government's and civil society's attention needs to be drawn to.

##### **b. Potential to preserve and promote culture**

The handicraft co-operative highlighted the potential of co-operatives in preserving and promoting Timorese culture through its art works, handicraft, and *tais* products. Boneca de Atauro see the huge potential to bring their products to the international market. This is because these products carry with them the history of Timor-Leste as a country, and also women's history. Members from Boneca de Atauro participated in international fairs in Macau, Philippines and Australia, where people asked, 'Where is Timor?'. Handicraft co-operatives have the potential to promote Timorese products and East Timorese women's

history at the national and international levels. This might offer potential to promote tourism to the country.

### **c. Potential to enhance workers' skills and knowledge**

A great positive potential of co-operatives is to improve and grow the skills and knowledge of their members. Koperative Sabão see there being potential in further development of their soap products, as this is not a common production activity in Timor-Leste yet. As a member stated in an interview on February 5, 2020 'we want to continue developing our product; even though we are moving slowly we are trying to keep moving.' In interviews with the co-operatives Bikeli-Ana, Dezenvolve Familia, and Feto Buka Rasik, it was pointed out that co-operatives have established links with various organizations to support them through training and capacity building. This has included linking members to access external support from Alola Foundation, Timor Aid, Ministry of Social Solidarity, and SEEI (Personal communication, February 2020). There is potential for co-operatives to move forward by sharing and building networks with people and organizations in their communities and outside of their communities. For example, members of Bikeli-Ana have been sharing their knowledge of food processing using seaweed and fish. On top of that, they have explored more ways to preserve and share their food that have been passed down from their ancestors. The practice of sharing stories through what they produce are the strong potentials for co-operative development.

### **d. Potential for organic food production**

Representatives from Kohar, MKP and Dare Haburas indicated that focusing on organic food production (including coffee, and native plants) offers promising future growth potential. A member of MKP believes that agriculture co-operatives have great potential to reduce food imports. As the interviewee emphasised, the co-operative's members have accumulated valuable knowledge and skills regarding horticulture products, because they have been learning-by-doing. This accumulated knowledge is an asset. Their skills include 'preparing fertilizer to support the plants; teaching them [members] how to do staking, and raising seedlings' (Dare Haburas member, personal communication, February 15, 2020). The same interviewee also added:

...it is not something new. We have been involved in a co-operative before [Indonesian occupation] and I understand the whole process, the successes, weaknesses, I have known

this. Its relationship with the government and NGOs. The main concerns are to make it work by having human resources and financial resources.

An important observation can be made here. Kohar proves that when farmers come together they can achieve great impact, as they are able to maintain the organic coffee, to respond to the international fair-trade organization demand and benefit from network relationships. The great potential for the agriculture co-operative is to produce local produce for the local market. In time, it is expected that these co-operatives will progress to small-scale industry and be able to add value to make products out of their produce. The government needs to support the local people's businesses through buying local products, instead of importing from abroad. With appropriate government support, producer co-operatives may be able meet their potential in organic food production as identified by participants involved in this study.

#### **4.5. Summing Up**

The findings of this study have highlighted characteristics that enable a production co-operative in Timor-Leste to achieve growth, economic viability, and success. Further, the participants identified challenges faced by producer co-operatives. Here in this final section, the discussion specifically addresses the research questions with use of the Appreciative Inquire (AI) framework and reference to the existing literature. The research questions are: 1) how have producer co-operatives developed since the restoration of national independence?; 2) what is it that successful producer co-operatives do which other less successful ones do not do?; 3) what are the challenges faced by producer co-operatives?; 4) how can these challenges be minimized or addressed?

In making sense of the research findings, in AI framework, the research is looking for ideas being expressed or the facts that contribute to address the research questions (Reed, 2007). As part of this process, AI also focuses on some factors identified as being unhelpful which are covered under the challenges. The findings covered the experiences of producer co-operatives in running their co-operatives that have contributed to their socio-economic and cultural development. The adoption of an AI approach provides in-depth and robust exploration of, as well as appreciation of, the experiences of the co-operative's fraternity in general. As the co-operatives involved in this study have clearly stated, despite various challenges that they experience, the co-operative industry has great positive impact on its members at the household level. Co-operatives members have clearly benefited from their participation in co-



operatives. The co-operative members come together with their knowledge and ideas to make co-operatives work. The AI approach takes special interest in functions, resources, activities and systems. Function is about the context and the producer co-operatives as an organisation; resources identified for co-operatives to work including the human resources with the skill and knowledge, and other characteristics that enable these co-operatives to work; the system being shared is about the process undertaken by co-operatives and the communication happens in this setting (Reed, 2007). The previous section has already covered the communication that happens among members, and between members and the external people and the organizations. It emphasized the fact that these varied ten producer co-operatives shared the characteristics that enable them to succeed, grow and be economically viable. The discussion following below seeks to point to elements that may offer answers to the research questions.

#### **a. Co-operative development**

The literature review and findings have confirmed the scarcity of documentation of the co-operative development history in Timor-Leste. Studies on co-operatives in Timor-Leste are few and far between; those on producer co-operatives especially are even more scant. The FRETILIN's Political Manifesto in 1974 could be the only written document that mentioned the existence of co-operatives in that period and highlighted how co-operatives ideas and practices were being used during the earlier Indonesia occupation (1975-1978). Moreover, under Indonesian occupation, the information related to KUD in other Indonesia provinces existed, yet very limited on KUD practices in Timor. Antero da Silva (2008) is among few studies in Timor that discusses co-operatives and KUD in Timor-Leste during the occupation period.

In the independence period, co-operative development increased but in a highly limited form in where it would contribute directly to the economic development. The hope at independence in 2002 was that freedom from Indonesia would lead Timorese people to perform well in the co-operative sector. However, the reality proved differently. In terms of legislation and regulation supporting co-operatives' existence and operation, the provisions are in place, including the registration criteria. However, working with these provisions has proved difficult for the co-operatives, particularly the registration criteria, and access to support from MCI and the other line ministries within the government. This also means that having legislation and regulation in place is not in itself sufficient for co-operative

development. Among other characteristics identified, ‘seriousness and discipline’ of members were identified as key factors for co-operatives to flourish. In addition, public support, especially from the government are crucial to support the development of co-operatives.

It should be noted that there are limitations to assessing the development of co-operatives through the use of official data. Statistical data from the government on the number of co-operatives that exist does not reflect a correct count of the co-operatives in the country. This is because some co-operatives that have not had prior contact with MCIAC or stopped sending their report to this institution are not included in this data. In addition, as Nunes (2015) stated, limited quantitative data is available on co-operatives. In Timor-Leste, statistical data is difficult to obtain from sources other than the government, so it is difficult to know the extent of co-operative development in quantitative terms. With the barriers identified by producer co-operatives related to the registration process, some adjustment to data collection and collation needs to take place to make it more practical and friendly. There is still work that needs to be done to obtain accurate data which will then contribute to understanding how co-operatives make contributions to social, economic and cultural development.

#### **b. Practices that enable co-operatives to succeed and their positive potential**

In conducting their daily activities, co-operatives are guided by seven principles. The characteristic for success identified by these ten producer co-operatives align with co-operative seven principles as mentioned previously (see section 2.2). Moreover, as defined in literature, co-operatives must do their business to survive, or else they will become inactive.

As for achieving the potential for producer co-operatives to grow in Timor-Leste, the members have highlighted the importance of human resources, knowledge and skills in management and finance, and support from external sources for both financial and capacity building. As these ten co-operatives have worked and survived for several years, their knowledge and skills can also be considered valuable potentials on which further progress in the co-operative sector can draw on.

There is a need to have public support from national to local levels to enable the fulfilment of co-operatives’ potential to contribute to the socio-economic development of Timor-Leste. The role that co-operatives have played in the socio-economic development are varied. Even though co-operative activity has not reached the wider international level or even national

level, yet co-operatives contribution at the household level is undeniable. The co-operative members identified how co-operatives have supported their households economically, socially, and culturally. These are the characteristics that the actors involved in the co-operative sector need to focus on. Arguably, there is available knowledge, skills, and practices that have worked to bring co-operatives success, and on which further developments can be built. A careful appreciation of this existing stock of knowledge, skills, and good practices would contribute to minimise these challenges.

### **c. Challenges faced by producer co-operatives and how to minimize them**

As suggested by the literature, producer co-operatives can face various internal and external challenges. This study found that in Timor-Leste the challenges for producer co-operatives that stand out most prominently are difficulty accessing the market and the lack of infrastructure. After these follow the misunderstood role of producer co-operatives and the inadequate support, and lastly the daunting registration process. The lack of clarity of roles and responsibilities of government and other organizations (including NGOs), in supporting co-operatives is a regrettable challenge. The overlapping roles in the government body through line ministries have become a barrier to support co-operative development. As all the sectors are dependent on the State's General Budget, there is need for the government to stimulate the co-operatives sector to be able to make a greater contribution.

The ten producer co-operatives identified challenges such as the low management capacity, low financial management capacity, political interference, low worker productivity in their co-operatives, difficulty in accessing markets and unclear public policy regarding co-operative support. There is a need to define a clear way on how this whole process can work and how other organisations can contribute in a way that will ensure co-operatives' growth, success and economic viability.

In addition, the findings also confirm the previously reported challenges faced by co-operatives in developed and developing countries if there is not adequate infrastructure to support co-operatives' daily operation and business. Co-operatives in developing countries are in particular still dealing with this challenge. As such, there are several challenges that are common to many developing world contexts including Timor-Leste, such as lack of financial and management skills, poor infrastructure and difficulty in access to market. Therefore, for co-operatives to make greater socio-economic contribution, the importance of collaborative

work with other sectors and with organizations in the country and internationally cannot be overstated. Given these challenges are of a cross-cutting nature, all the line-ministries in the government have an important role to play in minimizing the challenges identified in this study.

Based on the answers to the research questions above, the final chapter provides a conclusion and recommendation to address the issues raised in this chapter.

## CHAPTER 5 CONCLUSION AND RECOMMENDATIONS

### 5.1. Conclusion

The development of the co-operative sector in Timor-Leste is an important addition to the public and private sectors. Co-operatives economically benefit their members directly at the household level. Producer co-operatives (such as horticulture, fishery and handicraft) have been practised at the community level for many years and are where the motivation to start co-operatives began in Timor-Leste. However, the development of producer co-operatives has been stymied as discussed in this study. As a first step these co-operatives themselves need to address firstly how to increase the power for negotiating the price; secondly, how to utilise the benefits provided by the government; and thirdly, how to start a new business which can only happen when community members come together.

In running their activities and business, the ten producer co-operatives have identified practices that have enable co-operatives to succeed. This includes co-operative members having strong work ethic; members receiving benefits from the co-operative's activities; co-operative members working on product development and quality control; having access to markets; building strong networks; focusing on education and information sharing; and lastly having central organizational figures within the co-operatives to ensure co-operatives are doing their activities and businesses according to prevailing regulatory guidelines.

There are also challenges faced by co-operatives in their daily operation. These challenges are from external and internal to the co-operative. Notably there is difficulty in access to markets; lack of coordination among government entities to support co-operatives; poor infrastructure; and lack of management and financial skills of co-operatives members.

Despite these challenges, co-operatives members are learning in various ways to sustain and continue their business and daily activities.

Given these challenges, it is important for government and other organizations to support co-operatives in ways that help them to achieve the potential for effective business activity that other business entities are able to achieve. The need to invest in co-operatives through training, information sharing, and enhancing financial and management skills of co-operative members are essential for co-operative development. Finally, the need for collaboration and

coordination among government entities is important to be able to provide the support to co-operatives that will ensure their sustainability in the future.

## **5.2. Recommendations**

More than ever producer co-operatives are crucial for the economic development of Timor-Leste, especially for economic diversification, and because of their social and cultural benefits. Some strategies that can assist producer co-operatives to go forward and reach their potential include the following:

1. More research on co-operatives is needed to understand and define ways for co-operatives to perform well and make their socio-economic contributions to development.
2. Training in financial literacy and organisational management are important for the co-operative's management team and its members. This could be included under the MCIA training program, as well as under other line ministries within the government.
3. The government and producer co-operatives should initiate advertising campaigns on social media or national television promoting awareness of the economic and social importance of buying local products from local producers. This could increase local market demand for the co-operative's products.
4. The government and NGOs that work with co-operatives need to develop a standard of operation that will guide them when providing support to co-operatives and for the co-operative sector to have its own standard or internal regulations when accessing support. A standard should be developed in place to support this process.
5. Exchange learning between producer co-operative members within Timor-Leste, and with co-operatives from other countries could help to promote co-operative movements and allow the sharing of lessons about best practices, exchange of skills and to have more people joining co-operatives.
6. Women with skills in *tais* weaving play an important role in cultural preservation. This could be included into a training program where women co-operatives could take the lead in transferring their skills and knowledge to younger generations. This could be included under MCIA and SEEI programs in supporting women for economic empowerment.

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