MAY 05

How to leverage the co-operative movement for poverty reduction[1]

Why this note?

Co-operatives, credit unions, and other forms of self-help organisations are an important, but sometimes overlooked, part of the institutional map in the economic and social sectors of developing nations. This How to note is relevant to development practitioners and partners active in the promotion of enterprise, employment and incomes, and seeks to indicate opportunities and lessons for harnessing the contribution of the co-operatives sector to development.

Simply put, a co-operative is an independent enterprise,promoted. owned and controlled by members to meet their needs. As an enterprise, co-operatives are active in markets locally, nationally and worldwide (see Box 1). The more precise definition of co-operatives used by the International Co-operative Alliance is widely accepted: "A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise."

Co-operatives (co-ops) are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Co-operatives recognise their accountability to members, employees, customers, suppliers, other co-operatives and the larger society. Many of these stakeholders also share ownership of the co-operative. Corporate responsibility is embedded in the principles of co-operative organisation and operation and can inspire growing corporate sector efforts in this direction.

Box 1: Co-operatives can compete and succeed in the marketplace

Ghana: Kuapa Kokoo Union (KKU), Ghana is well-known as the supplier of almost two-thirds of the international supply of fair trade chocolate. It is a secondary co-operative – the members are not individuals, but village-based co-operative societies, which collect cocoa beans from49,000 members and then sell them to KKU. 25% of these members are women. While fair trade is important, most of the cocoa marketed by the co-operative is sold through normal channels (more than 90%). The co-operative has enabled farmers to capture much more value in the international supply chain. DFID guaranteed a business loan to help KKU expand. The annual tonnage of cocoa shipped has grown from 1,540 to65,000 tonnes. (http://www.kuapakokoo.com/)

[1] This note has been prepared by DFID's Growth and Investment Group drawing from papers provided by The Co-operative College under DFID's Strategic Grant Agreement with the UK Co-operative Movement, and from information from DFID Enterprise Advisers and colleagues in overseas offices.

Box 1: (continued)

UK: The large Co-operative Group in the UK employs over75,000 people, and operates more than 3,000 retail outlets in addition to online and business-to-business operations. The food, banking, insurance, travel and other businesses contributed to annual sales of £8 billion in 2003. (http://www.co-op.co.uk)

Co-operatives revisited

Successful co-operatives generate substantial advantages for both members and the wider community. It is healthy for co-operatives to compete with both state-owned and private enterprises involved in the production and distribution of services and goods. Co-operatives that encourage inclusive participation and pursue wider interests beyond profitability can generate substantial developmental benefits.

However co-operatives have lost substantial goodwill in many countries because governments and development agencies have in the past promoted co-operatives that did not incorporate core co-operative principles and were:

- fostered inside a constraining policy environment, often with controlling or distorting state supervision;
- not member owned and controlled (often state or promoter led);
- set up quickly to meet needs identified by governments and other promoters or to leverage promised subsidies, monopoly markets or other inducements; and
- non-democratic, corrupt and/or inefficient.

These factors have given rise to a conventional sceptical view of co-operatives in development discourse which does not recognise that:

- many co-operatives have succeeded in a number of diverse fields and countries over long periods despite the odds and are undergoing a renewal in the UK and globally;
- new kinds of co-operatives have emerged to meet new needs (see Box 2);
- co-operatives employ more workers than multinational companies (estimated 100 million[2]);
- co-operative to co-operative trade has driven the substantial growth of fair trade; and
- new international policy frameworks for the co-operative sector have been adopted (UN, ILO, EU).

[2] Source: ICA

Box 2: Co-operatives provide services to poor people

Bangladesh: Today 20% of the population of Bangladesh has access to electricity as against the average of 37% for low-income countries. Soon after the independence of Bangladesh, the National Rural Electric Cooperative Association (NRECA) of the United States was asked to advise on how the country could electrify rural areas. Working with the government, NRECA has helped to set up 67 rural electricity co-operatives, called Palli Bidyut Samities (PBSs) serving 38,000 villages. It is recognised as one of the most successful rural electrification projects in the developing world, and a success among development projects in Bangladesh. The PBSs have been able to restrict losses in transmission and distribution of electricity to 16-17% on average as against 18% in Bangladesh and 23% overall in low-income countries. The PBSs have more than 4 million customers.

Can co-operatives help reduce poverty?

Many co-operatives do not start with the poverty elimination agenda but contribute to this goal by offering economic opportunities to marginal economic actors (producers, workers or consumers). Some development agencies have active programmes with the co-operative sector, including Swedish International Development Cooperation Agency, Canadian International Development Agency, Norway, and USAID.

Given an enabling environment, co-operatives can contribute substantially to meeting the Millennium Development Goals through:

- enabling small producers to access markets and capture more of the value chain (see Box 3);
- promoting savings, credit and banking services;
- reducing vulnerability and promoting security through micro-insurance;
- being schools for democracy (opportunity for leaders to emerge and to learn to be accountable to democratic institutions); and
- providing goods and services – including health, education, water and housing.

Box 3: Access to markets

India: The Gujarat Co-operative Milk Marketing Federation has competed with domestic and international enterprises for over 50 years. Serving over 2 million members, the AMUL brand sales exceeded $600 million during 2003-04 and it has inspired 11 million milk producers to make India the largest milk producer in the world. (http://www.amul.com)

What is DFID already doing?

DFID is working actively with co-operatives and credit unions in countries such as Ghana, India, Kenya, Uganda, and Ukraine. Programmes supported include work with membership organisations or supervisory bodies, with extension services for agriculture, and with specific co-operatives such as Kuapa Kokoo through the Day Chocolate Company.

In these and other countries DFID and other donors face challenges in supporting the co-operative sector, such as:

- a disabling environment where co-operatives are still used as vehicles for political initiatives, and are hence vulnerable to distorted incentives, capture and corruption;
- a history of both prominent successes, and, more frequently, failures; and
- a temptation for both government and donors to pump substantial money into the co-operative sector.

Co-operatives, and their potential to contribute to growth, are mentioned in (growth and) poverty reduction strategy papers, such as those for Ghana and Malawi. Although this is positive, in terms of co-operatives' potential to contribute to development, this should be within the context of private sector development, rather than justifying a return to large-scale government promotion and control.

DFID recognises that getting the enabling environment right for co-operatives to flourish is the number one priority for the sector. This matches with the co-operative sector's own desire to just obtain a level playing field, without government favour, so as to succeed as businesses that benefit the wider community.

What lessons have been learned?

Not enough engagement in the development debates
Co-operatives did not fit into many development models, because they were not seen as private sector, or civil society, or social movement – when in fact they have elements of all three. The diversity of co-operatives (scale, scope and geographical focus), physical dispersal and lack of co-operative data has been only partly addressed through international co-operative networks.

Co-operatives are part of the private sector
They are a different form of business ownership with a different form of stakeholder accountability and incentive structure. They have a distinct social dimension but should be treated as enterprises and thus allowed to prosper or wither depending upon effectively meeting stakeholder demands.

Co-operatives often have to operate in sometimes inappropriate legal environments
Co-operative legislation in some countries is still out-of-date or immature, and may not, for example, adequately cover different types of co-operatives, managing production, retail, or other service oriented enterprises. This is particularly true in Eastern Europe and Central Asia (see Box 4).

Box 4: Co-operatives in all but name

In former Soviet Union states, and in other parts of the world, many organisations operate as co-operatives, independent, and member-controlled, but may be called associations or by some other term. In a similar manner, many farmer associations are de-facto co-operatives. DFID has supported the co-operative sector in, for example, Moldova, Russia, Ukraine and Uzbekistan, though our partners may be associations, rural groups, as well as formal co-operatives (such as Makarov Co-operative in Ukraine). The latter was instrumental in advocating for improved co-operative legislation in Ukraine.

Co-operative organisations often have a relatively greater outreach

Local savings-based, user-owned organisations such as Savings and Credit Co-operative Organisations (SACCOs) very often reach local communities beyond the capabilities of large organisations such as banks or microfinance institutions. The same is true of rural agricultural co-operatives. Such organisations can be low-cost and operate with no external dependence, although governance and auditing issues can emerge if the existing regulatory structure is weak (see Box 5).

Co-operatives can justify some public support in the short-term

In initial stages of co-operatives' promotion, the costs of promotion are much higher than the benefits to the original promoters. Unlike investors in companies, original co-operative promoters cannot acquire a disproportionate share of future profits. Co-operatives also generate substantial public goods by enabling marginal economic actors to join successful businesses and participate on equal terms. Co-operatives can exert a sobering influence on markets as they are not solely driven by the profit motive. In the short term, some subsidies may be needed and can be justified in specific cases. However, donors have to be careful not to distort members' incentives for creation and continuance of the enterprise and thus negatively impact on the ownership and governance of the co-operative.

Box 5: Credit unions and expanding financial markets

Member-owned, well-managed SACCOs have a significant role to play in the development of financial service markets, such as in Tanzania, Uganda and elsewhere. But the existence of weak, poorly-performing SACCOs is a hindrance to growth and poverty reduction in rural areas. Strengthening well-functioning SACCOs and closing those that are insolvent will ultimately serve the rural poor better. The Uganda Private Sector Donor Group, in a forthcoming brief, notes the importance of three steps:

- strengthen financial accounting in SACCOs, and the capacity of apex bodies to collect data, monitor, and set self-regulatory standards;
- strengthen the ability of Ministries or other supervising organisations to monitor SACCOs, and enforce existing auditing requirements; and
- educate SACCOs' members on their responsibilities as owners, as well as their rights.

What do co-ops and the co-operative sector need?

- The right political and legal framework (see Annex 1);
- an enabling environment no less favourable than that afforded to other forms of businesses;
- recognition of their place in the private sector of the economy;
- autonomy, independence and competition;
- recognition in national growth and poverty reduction strategies; and
- exit options (allowed to merge with stronger co-operatives or go out of business if necessary).

What more can we do?

- Help to get the legal framework right;
- appropriate support to promote business development:
  - business skills and
  - member governance skills (to prevent capture by elites, professional managers and so on);
- help with market access, such as trading links including North-South co-operative to co-operative links; and
- improve understanding by donors and others that they are businesses and part of the private sector – but they also have elements of civil society organisations.

For further information contact:

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Co-operative College: This note draws on *Making a Difference: Co-operative solutions to global poverty* produced by the Co-operative College which has more analysis and guidance on issues raised here. (http://www.co-op.ac.uk)

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Annex I: ILO Recommendation 193

The International Labour Organisation is the lead agency in the UN system for co-operatives. The 2002 Recommendation, The Promotion of Co-operatives (193) is the main international policy framework for co-operatives and has, like all ILO instruments, been created through a consensus between governments, employers and trade unions. It rejects state sponsored and managed co-operatives and emphasises that they are enterprises. Key points of the Recommendation:

- The promotion of co-operatives should be considered one of the pillars of national and international economic and social development.
- ICA statement of co-operative identity accepted as the basic definition of co-operative.
- Measures should be adopted to promote the potential of co-operatives in all countries.
- Co-operatives should be enabled to respond to their members' needs and the needs of society, including disadvantaged groups in order to achieve their inclusion agenda.
- Special consideration should be given to increasing women's participation in the co-operative movement at all levels.

The role of government is to:

- Provide a conducive policy and legal environment.
- Facilitate access to support services.
- Provide oversight of co-operatives in ways which respect their autonomy.
- Ensure they enjoy equal treatment with other types of enterprises.
- Develop partnerships with co-operatives.

The role of employers' organisations is to

- Extend membership and provision of services to co-operatives wishing to join.

The role of workers' organisations is to:

- Assist co-operative employees to join trade unions.
- Assist trade union members to establish co-operatives.
- Participate in setting up of co-operatives to create or maintain employment.
- Promote productivity, equality of opportunity and rights of worker-members.
- Undertake education and training.

The role of co-operative organisations is to:

- Work with social partners to create a favourable climate for co-operative development.
- Promote the horizontal and vertical integration of co-operatives.
- Invest in human resource development.
- Represent co-operatives at the international level and encourage international collaboration.

Since its adoption ILO Recommendation 193 has been used to focus debate on the needs of the co-operative sector throughout the world.