

**Rediscovering the cooperative advantage**  
**Poverty reduction through self-help**

by  
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International Labour Office, Geneva

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## FOREWORD

This volume examines the role and potential of cooperatives in reducing poverty. It includes an analysis of what we understand by the terms *poverty* and *cooperatives* and discusses in detail the poverty reduction policies of international organizations and how cooperatives could help achieve their objectives. The historical record of cooperatives in poverty reduction is considered and eleven case studies from different fields of cooperative activity are presented. A key conclusion of this study is that self-organization by the poor is a pre-condition for successful anti-poverty work and that cooperatives can play an important role in this struggle. For cooperatives to play this role a number of conditions must be met: there must be an appropriate environment that enables cooperatives to be true to their principles; there must be a serious promotional effort by the different social actors; and there must be a strong focus on human resource development. In this context, the new ILO Promotion of Cooperatives Recommendation, 2002 (No. 193) is of particular relevance. Indeed, Recommendation No. 193 provides a detailed guide to how cooperatives can play a significant role in economic and social development.

Recent international policy developments have brought into sharp focus the overriding importance of eliminating poverty, leading to the adoption in September 2000 of the United Nations Millennium Declaration, which spells out eight Millennium Development Goals to be achieved by 2015. The first of these goals is to reduce by half the proportion of people living on less than a dollar a day. United Nations specialized agencies, including the International Labour Organization, have joined together with the Bretton Woods institutions and the donor community in a global effort to achieve these goals in an effective and timely manner. The International Labour Organization, in keeping with its mandate, has elaborated the concept of Decent Work to encompass its contribution to the reduction of poverty and encapsulate its primary goal today which is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity. Decent Work implies the recognition of basic rights at work, access to productive employment, an adequate level of social protection and the exercise of voice and participation at work through social dialogue. Through these objectives poverty can be significantly reduced and the quality of people's lives substantially improved. This study suggests some practical ways by

which international organizations may utilize the breadth and depth of the cooperative experience in fighting poverty.

This author of this study is Dr. Johnston Birchall, Senior Lecturer in Social Policy in the Department of Applied Social Sciences, Stirling University, Scotland. A well-known commentator on cooperative matters, Dr. Birchall poses some important questions to the reader, including why there are so few explicit references to cooperatives in the literature on poverty reduction. Specifically, he asks whether some development experts are merely ignorant about cooperatives or whether they have reservations because of past manipulation of cooperatives by governments in many countries. He concludes that in reality many development agencies are actively engaged in promoting cooperative-type organizations but use a variety of alternative terms, without recognizing that they are in fact promoting cooperatives. This “cooperative-blindness” is a stumbling block to drawing on the rich cooperative experience, and to understanding the close fit between grass-root, participatory, community-based development and the power of cooperative people-centred business.

This report has therefore three main purposes: To provide direction and focus to the ILO’s own work in the field of poverty reduction through cooperatives; to inform other international agencies and development partners about the real potential of genuine cooperatives; and to encourage cooperatives themselves to develop a more coherent and dynamic approach to poverty alleviation.

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## CONTENTS

|                                                                      |     |
|----------------------------------------------------------------------|-----|
| Foreword .....                                                       | iii |
| Abbreviations .....                                                  | vii |
| Introduction .....                                                   | ix  |
| Cooperatives and poverty reduction .....                             | 1   |
| The policy context for poverty reduction through cooperatives .....  | 15  |
| Case studies in cooperative development .....                        | 31  |
| Conclusion: The potential of cooperatives for poverty reduction..... | 63  |
| Bibliography.....                                                    | 71  |



## ABBREVIATIONS

|                |                                                                                             |
|----------------|---------------------------------------------------------------------------------------------|
| ACOPAM .....   | Appui associatif et coopératif aux initiatives<br>de développement à la base                |
| CICOPA .....   | International Organization of Industrial, Artisanal and<br>Service Producers' Co-operatives |
| COPAC .....    | Committee for the Promotion and Advancement<br>of Cooperatives                              |
| DANIDA .....   | Danish Agency for Development Assistance                                                    |
| FAO .....      | Food and Agricultural Organization                                                          |
| ICA .....      | International Co-operative Alliance                                                         |
| ICMIF .....    | International Co-operative and Mutual<br>Insurance Federation                               |
| IFAP .....     | International Federation of Agricultural Producers                                          |
| ILO .....      | International Labour Organization                                                           |
| IMF .....      | International Monetary Fund                                                                 |
| MDGs .....     | Millennium Development Goals                                                                |
| NGO .....      | Non-Governmental Organization                                                               |
| OECD .....     | Organisation for Economic Cooperation<br>and Development                                    |
| PRSP .....     | Poverty Reduction Strategy Paper                                                            |
| SAGUAPAC ..... | Cooperativa de Servicios Públicos<br>'Santa Cruz' Ltda.                                     |
| SEWA .....     | Self Employed Women's Association                                                           |
| SSADRI .....   | Social Science and Development Research Institute                                           |
| SWIMCO .....   | South West Irrigation Management Cooperative                                                |
| UHAB .....     | Urban Homestead Assistance Board                                                            |
| UN .....       | United Nations                                                                              |
| UNDG .....     | United Nations Development Group                                                            |
| UNDP .....     | United Nations Development Programme                                                        |
| UNRISD .....   | United Nations Research Institute for<br>Social Development                                 |
| WFP .....      | World Food Programme                                                                        |



## INTRODUCTION

The purpose of this study is to explore the relationship between the cooperative form of organization and the reduction of poverty. There are good reasons for thinking that cooperatives might have an important role in the global effort, led by the United Nations, to halve the level of poverty by 2015. After all, it was poor people who originally invented cooperatives as a form of economic association that would help them climb out of poverty. The history of cooperatives is full of evidence of their ability to increase their members' incomes, decrease the risks they run, and enable them to become full participants in civic society. The principles on which cooperatives are based, and on which they are distinguished from other forms of business organization, point to a concern with democratic control by the members, the equitable return of economic surpluses, and a desire to share these benefits with other people in similar circumstances. However, their history also provides evidence of the limitations of cooperatives. They have a tendency, once established, to appeal more to people on low to middle incomes than to the very poor. In the developed world, they have had a tendency to grow and to rely more and more on professional management, which has meant their being distanced from their members and becoming more like conventional businesses. In the developing world, they have often been used as tools of development by governments that have not allowed them to become fully autonomous, member-owned businesses.

What potential does the cooperative form have in practice to reduce poverty? The question is an important one. It is part of a wider question, about what forms of economic and social organization the poor need in order to help themselves out of poverty. This is part of an even wider question about what techniques should be used by international development agencies, NGOs, national and local governments to achieve sustainable development that is targeted on the poor. The question is also an urgent one. The United Nations is co-ordinating a huge, global effort to reduce poverty and all the other disadvantages and deprivations that keep people poor. If the cooperative form is good at reducing poverty and is overlooked, then the Millennium Development Goals may be harder to achieve. If its potential is overestimated, development effort may be wasted. We need to have a wide-ranging debate about just what cooperative businesses can contribute to the reduction of poverty. This volume aims to help stimulate and contribute to such a debate.

We begin in Chapter One by defining what we mean by poverty, and by defining cooperatives and other self-help organizations in relation to cooperative principles. Then we explore the historical record of cooperatives, briefly evaluate their past contribution to poverty reduction, and ask how relevant they are to current needs and priorities. The conclusion is that cooperatives have great potential, but as part of a wider set of more or less formal self-help organizations. In practice, this form of member-owned business should only be used if the poor themselves see its potential.

Then in Chapter Two we examine the policies of the international organizations that have the responsibility for achieving the United Nations' Millennium Development Goals, and ask what the contribution of cooperatives and self-help organizations might be. We concentrate on the World Bank's Poverty Reduction Strategy Papers and the Decent Work strategy of the International Labour Organization. The conclusion is that cooperatives have the potential to contribute to the poverty reduction strategies of a wide range of international organizations, but that this potential could be much better recognized.

In Chapter Three, we present eleven case studies that illustrate how various types of cooperative, in a wide variety of situations, in developed and developing countries, are in practice lifting their members out of poverty. We ask what they have achieved, what setbacks they have experienced, whether their experience has wider significance, and how replicable they are. The conclusion is that cooperatives and similar member-owned businesses are an extremely flexible form that can be adapted successfully to solve a variety of economic problems. However, their successful adaptation requires a great deal of promotional effort, attention to detail, and investment in human capital.

Finally, in Chapter Four we examine the relationship between cooperative development and the more general process of participatory development. The conclusions are that the development of cooperatives and similar self-help organizations is a vital aspect of participatory development, and that without some form of self-organization by the poor wider development would not be sustainable. The poor must be involved in ownership of the development process, through their own local, democratically controlled economic organizations. If the cooperative form did not exist, it would have to be invented. The study ends with some recommendations to strengthen the work of the ILO and other international organizations in making a cooperative contribution to poverty reduction.

# Cooperatives and poverty reduction

# 1

In September 2000, at the United Nations Millennium Summit, world leaders agreed to a set of Millennium Development Goals (MDGs) that aimed to make substantial progress in solving the problems of poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women. The goals include: to halve extreme poverty and hunger by 2015; achieve universal primary education; empower women and promote equality between women and men; reduce under-fives mortality by two-thirds and maternal mortality by three-quarters; reverse the spread of diseases, especially HIV/AIDS and malaria; ensure environmental sustainability; and create a global partnership for development, with targets for aid, trade and debt relief. It is the goal of halving extreme poverty that concerns us in this report, though the other goals are intimately connected with poverty and it is difficult to imagine solving one without simultaneously attempting to solve all the others. In 1990 it was estimated that 29 per cent of people in low and middle-income economies were poor. The aim is to halve that by 2015 to 14.5 per cent. Even then there will be 890 millions who do not have the bare minimum to live on.

## 1.1. How should we define poverty?

The definition of *poverty* that has been chosen by the UN and its partner organizations is a simple one. It is ‘whether households or individuals have enough resources or abilities today to meet their needs’.<sup>1</sup> The simplest way of measuring this is by deciding on an income threshold below which people are poor such as the UN’s measure of US\$1 a day. This is absolute poverty. Poverty is not the same as *inequality*, which is a relative measure. The relative position of individuals and households is also important, because the overall level of inequality is an important indicator of the level of welfare among the most unequal. Or, as the recent White Paper from the UK Government puts it, poverty reduction is faster where growth is combined with equity. It is more easily achieved in less unequal

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<sup>1</sup> World Bank (2002d)

countries because ‘the lower the level of inequality, the larger the share of the benefits of growth that accrue to the poor’.<sup>2</sup>

Another important concept is *vulnerability*. It is the probability of falling into poverty in the future, because of the inability to absorb shocks such as illness, lower prices for one’s products, higher food prices, and so on. It is important because it affects people’s behaviour, making them more risk-averse and fatalistic. Poverty is *multi-dimensional*, and includes lack of access to education, health care, clean water and sanitation, and adequate housing. It also includes gender inequality, and a greater likelihood of contracting a deadly disease such as HIV/AIDS or malaria. In developed countries, the idea of *multiple deprivation* has largely replaced that of absolute poverty as a measure of human suffering, because income support has almost eradicated hunger while leaving people vulnerable to a range of other distresses. In the UK the term *social exclusion* has begun to be used instead of poverty, because it draws attention to the fact that a minority of people suffer not from absolute poverty but from a range of deprivations that prevent them from taking a full part in mainstream society. This is exacerbated when excluded people are grouped together in public housing estates where a majority are unemployed, their children perform badly at school, lifestyles are unhealthy, and there is a high crime rate and fear of crime. In such cases, the term *spatial exclusion* is an accurate summary. The United Nations Development Programme has also developed a more general concept of *sustainable livelihoods*, which it defines in this way:

*livelihoods connote the means, activities, entitlements, and assets by which people make a living, and include not only natural and biological assets, but also social, human and physical assets.*<sup>3</sup>

One advantage of using such a crude and low-level measure as the UN uses is that it has greater political legitimacy. Set the threshold much higher and some people might begin to dispute whether policies are really about poverty or just an attempt to redistribute wealth. On the other hand, we cannot get away from the problem of relativity. Also, when the most grinding poverty is solved, it is possible to raise the threshold and aim higher. In evaluating the contribution that cooperatives have made, and could make, to poverty reduction, we can take a severe criterion of absolute poverty, or less severe criteria such as reduction in vulnerability and inequality, greater social inclusion, and a more sustainable way of making a living.

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<sup>2</sup> DIFD (2000) p18

<sup>3</sup> ILO (2001b) p7

## 1.2. What do we mean by a 'cooperative'?

In 1995, the International Co-operative Alliance (ICA), the apex organization that represents cooperatives worldwide, defined a cooperative as:

*An autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise<sup>4</sup>*

This definition emphasizes that cooperatives are independent of government and not owned by anyone other than the members. They are associations of persons, which can mean individual people but also 'legal persons', organizations that may themselves have members. This means that federal bodies whose members are primary cooperatives can also be cooperatives, and that small businesses can also be members of their own cooperatives. They are united voluntarily, and should be free to join or leave. This means that collective farms or village or neighbourhood associations that include all people in an area (whether or not they want to be members) are not genuine cooperatives. They are designed to meet their own needs as defined by the members; organizations that are set up primarily to meet the needs of others are not cooperatives. Nor can cooperatives be diverted into meeting needs that have not been sanctioned by the members, without them ceasing to be cooperatives. They are distinguished from shareholding firms by their democratic nature, with voting rights being assigned by person rather than by size of shareholding. Finally, they are enterprises, and not charities, NGOs, or branches of government.

The principles on which they are based reinforce this definition. Cooperatives have voluntary and open membership, democratic member control, and economic participation on the basis of membership rather than size of investment, autonomy and independence. Because they are member-owned businesses they need to make a commitment to the education and training of their members, and because they share similar values are expected to cooperate with each other. Finally, though they exist primarily for the benefit of their members, they also have responsibility for their wider community.

Behind these principles are values such as self-help, equity, democracy, equality among members, and solidarity. The relationship between the values, principles and practices of cooperation is one that has been worked out over almost two hundred years in a continual process of iteration – values leading to principles and then being tried out in various

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<sup>4</sup> International Co-operative Alliance (1995)

practices, and the experience of running cooperatives feeding back to reinforce certain principles and strengthen the values.<sup>5</sup> For instance, cooperation between cooperatives is an expression of solidarity between people whose needs have to be met through collective self-help because individually they are economically vulnerable. However, it also comes from practical experience that suggests that isolated cooperatives will remain economically weak, while clusters of cooperatives will gain in strength from networking and developing common apex organizations and shared services.

### 1.3. Cooperatives and poverty

The more we emphasize these shared values and principles, the more likely it is that we will develop strong arguments for cooperatives as a means of reducing poverty. Some people argue that because they are open to new members, do not require people to invest large amounts of capital, and tend to share economic results equitably, they have an automatic tendency to benefit the poor. Others take a more minimalist view of cooperatives, as ‘people-centred businesses’ that are mainly concerned with benefiting their members and do not have any built-in obligation to the poor.<sup>6</sup> In this working paper we take a more balanced view, that they have the potential to reduce poverty and – provided their values and principles are respected - will do this more effectively than other forms of economic organization. However, this potential may not always be realized, either because members lose sight of the needs of other potential members, or because those concerned with poverty reduction see cooperatives as tools rather than as autonomous organizations. Cooperative values and principles set up a creative tension between what ‘is’ and what ‘ought to be’ in cooperative practices. Or to put it another way, cooperatives are designed to be ethical businesses, and so are challenging both for their members’ relationship with each other, and for the cooperative’s relationship with its environment. How far has this creative tension within cooperatives benefited the poor? What is the record of cooperatives in poverty reduction?

#### 1.3.1. What is the record of cooperatives in reducing poverty?

In answering this question we have to consider the origins of cooperatives and their subsequent development. In developed countries, we can see two stages in the evolution of the market economy. In the first stage - corresponding roughly to the first half of the nineteenth century in Britain, later in other countries - the industrial and agricultural revolutions made the

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<sup>5</sup> See Birchall (1998)

<sup>6</sup> See Birchall (1995) for a discussion of this point

majority of people more dependent on money exchange and wage labour, and more vulnerable to fluctuations in the market economy. The urbanization that accompanied industrialization made them more vulnerable to disease, overcrowding, and insanitary housing. Skilled workers were threatened with the opening of their formerly closed occupations to new entrants, the intensification of production through the factory system, and the de-skilling effects of new technologies. One of their responses to lower wages and increased insecurity was to cooperate. It was not the very poor, but the recently impoverished skilled workers of Brighton who, in 1826 began the first recognizable cooperative *movement* (in the sense of a model that was replicated quickly, and in hundreds of cases around the country). Their aim was to lower the cost of living through buying food in bulk and selling on to their members, and using their store as an outlet for goods their members had produced.<sup>7</sup> One of the reasons this early movement failed was a downturn in the economy; the sheer poverty of cooperators was a major explanation for their failure (as cooperative development experts point out, people have to have some resources to pool in order to begin to cooperate). The second attempt to set up a viable cooperative form - the famous Rochdale Pioneers Society of 1844 - was also set up by skilled workers who had become poor not through their own lack of skill or ignorance, but through market forces. Nor were they lacking in social capital. Here is how I described them in an address to mark the 150<sup>th</sup> anniversary of the Pioneers Society in Rochdale:

*They were all more or less poor. Some of the original members had dropped out quite soon, because they could not afford to pay three pence a week. But it would be a mistake to assume that poverty meant ignorance or a lack of pride. The weavers had been the aristocrats of labour before the new factory system had driven them into poverty. Some of the Pioneers had been to school, and all were to a large extent self-educated. The town was a microcosm of all the radical religious and political movements of the day. Nearly all of the Pioneers were Chartists, or Owenite socialists, or Unitarians, or promoters of factory reform. Among them were men of exceptional ability. James Daly was said to be a good grammarian, arithmetician, mathematician and musician. Charles Howarth became the leading expert on cooperative law and constitutions, and William Cooper corresponded with Gladstone and with leading academics, being regarded as the best-informed man in Britain on cooperative principles and methods. Some of them were very good businessmen.*

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<sup>7</sup> See Birchall (1994a) ch.1

*Howarth became a manufacturer of washing soda, Ben Jordan an innkeeper, and James Smithies owner of a wool-sorting business.*<sup>8</sup>

A similar story could be told of the origins of cooperative credit banking and agricultural cooperation. When Friedrich Raiffeisen began his work in Germany in the 1840s, the farmers were so desperate his first act was to distribute food aid. Yet they were also skilled people with social capital, who needed to work together to provide connections to the new market society, and who then prospered.

In the second stage of the industrial revolution - roughly the second half of the nineteenth century in Britain - parallel revolutions in agriculture and transport, coupled with the growth of a world economy in staple foods, meant that food prices fell relative to wages and absolute poverty became more rare. A rapid growth in medical and statistical knowledge led to basic public health measures and the gradual regulation of the urban environment by local governments. The growth of trade unions secured a higher proportion of the added value for the labour force. The development of state social security, sometimes incorporating the mutual friendly societies that had provided 'cooperative' insurance, dramatically reduced people's vulnerability. By the end of the nineteenth century, cooperatives had begun to cater for the 'respectable' working classes and lower middle classes. In Denmark, Canada and the United States, agricultural cooperative enabled a whole class of small farmers to reach export markets. Throughout Europe, Raiffeisen-type rural cooperative banks were providing a means of saving and borrowing for farmers, while the urban Volksbanks, organized along lines set by Schultze-Delitsch, were providing credit to artisans and small business people. Consumer cooperatives, organised along Rochdale lines, had begun in almost all the European countries to consolidate into large federations that delivered good value and a dividend to working and lower middle class consumers. In particular, because the consumer cooperatives were linked to trade union movements they gave good quality, well paid employment that raised the standards throughout the distribution and retailing industries. Worker cooperatives, though never a strong cooperative form numerically, had by the end of the century become well established, notably in France and Italy. Their main aim was to provide 'decent work' for their members. In particular, the Italian 'labour cooperatives' achieved their aim of providing work for thousands of otherwise unemployed labourers.

However, there was no reason why better off people should not also use the cooperative method. In Germany large farmers began to organise corn milling and potato distilling on a large scale, raising the prospect of

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<sup>8</sup> Birchall (1994b), p3 - the passage is abridged from the original

cooperatives becoming cartels.<sup>9</sup> In Japan, the government suppressed a working class consumer cooperative movement, but developments led by middle class people had more success. In Britain, a policy of charging high prices in order to return high dividends to members had effectively excluded the poor. The Cooperative Women's Guild campaigned about the need to 'take Cooperation to the poor', and in 1902 an experiment was begun in Sunderland to provide low prices rather than dividends. It did not last long, as it was based on a philanthropic impulse that sat uneasily alongside the self-help ethos of existing cooperatives.

In summary, cooperatives began by enabling people to raise themselves above poverty, but later they became a means by which low and middle-income people continued to accumulate economic advantages. They raised whole classes of people out of poverty and prevented them from slipping back into it, which is in its own terms an achievement. Sometimes this meant that poorer people were unable to benefit. At other times the open membership principle meant that the poor did benefit, but not as part of a planned design. Cooperatives were not designed as tools of poverty reduction, but were a means by which groups of people could gain economic advantages that individually they could not achieve.

### 1.3.2. The planned use of cooperatives for poverty reduction

Before the Second World War, in market economies cooperators asked for no more than to be left alone by governments, and be allowed to get on with their business. They required enabling legislation for which they needed political influence, but they were not usually seen as 'tools' of public policy. Under the Soviet system they were taken over by the state or reduced to mere agencies of government. Under fascist dictatorships they were taken over, their assets stripped, their leaders murdered, imprisoned, or exiled.<sup>10</sup> After the War, in West Germany and Japan consumer cooperatives were given a favourable start by the occupying powers, and grew rapidly to create a much needed distribution system for the entire population. Once again, their ability to take whole classes of people rapidly out of poverty was confirmed. Agricultural cooperatives began a close relationship with government in many countries, regardless of ideology; in the United States, Japan, the Republic of Korea, India, France, and so on. Agriculture was seen as too important a part of national economies to be left entirely to market forces, and cooperatives were often the preferred alternative to capitalist owners who might exploit natural monopolies in the food production chain.

In the post-war period in developed countries, cooperatives have a mixed and complex record that is difficult to summarize. We can point to

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<sup>9</sup> See Birchall (1997) p17-18

<sup>10</sup> See Birchall (1997)

areas of growth. There is the Mondragón cooperative system in the Basque region of Spain, which has created 60,000 jobs in a system of mainly worker, but also consumer and farmer ownership cooperatives. There is the relatively new system of 'new generation' agricultural cooperatives in the United States that has created wealth for poor farmers in the Mid-West through adding value to produce by food processing. There is the continued strength of the credit union movement among low-income people in many countries, from the United States to Ireland, to the Caribbean. There is a vibrant consumer cooperative sector in Japan which, helped by the unique 'han' system of joint buying, has a real membership base. Yet their mission is not particularly towards the poor.

There are numerous examples in the developed world of small-scale cooperatives working in areas where people are socially excluded - food cooperatives, tenant management cooperatives, credit unions, time banks, cooperative health centres, community businesses and so on. There are also many examples among large cooperatives of decline, financial crises, liquidations and recently demutualization to investor-owned businesses. The complexity of the picture makes it difficult to generalize about the record on poverty reduction.

In developing countries, the post-war period started well. The cooperative form was already well established, because early on in the twentieth century colonial governments had set up cooperative registrar departments and had imported various European models including the German credit banks, the Danish agricultural cooperatives, and the British consumer cooperatives. Under colonialism, cooperatives had been seen as an intermediate form between the traditional, subsistence-based economies of the pre-colonial societies and the modern market economies of the West. They had also had the advantage, for the colonial administrators, of being economic rather than political organizations that did not threaten colonial rule. Now, in the emerging new post-colonial nations, cooperatives were seen once again as organizations that could be built on to traditional forms but as an alternative to capitalism, and in some cases a stage on the road to socialism. They were given a high profile in the economic planning of post-colonial nation states, and for around 25 years – up to the structural adjustment programmes of the mid-1980s – were targets for considerable amounts of development aid. As Laidlaw describes it, the 1950s were 'a period of extravagant praise and great expectations for cooperatives'.<sup>11</sup>

There were some notable successes. Where an export market or a large local urban market could be created for farmers, agricultural cooperatives became strong: coffee cooperatives in Africa, dairy cooperatives in India, beef production in Argentina and Brazil, are good examples. Sometimes, as in the Indian dairy cooperatives, these

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<sup>11</sup> Laidlaw (1978) p64

developments helped smaller farmers as well as larger. Yet in the main, cooperatives benefited those who found employment in cooperative development, and the more affluent farmers who were in a better position to make use of cooperative services.<sup>12</sup>

As Holmen points out in his study of cooperatives in Africa, there were two contradictory strands in the policy towards cooperatives. There was to be development from below, with learning by doing, mutual aid, fostering self-reliance, yet the development was to be planned, and carried out by government departments.<sup>13</sup> Laidlaw describes, in a review of 'cooperatives and the poor', how cooperative experts warned at the time that there was too fast a pace, and a danger of growth of bureaucracy. Cooperative education was being neglected. Cooperatives were becoming a funnel for government services, financial credits and political favours, which subverted their whole purpose. Verhagen comments that the 'massive and quite unprecedented efforts of cooperative institution building' that occurred simply created vested interests that would not let go of control.<sup>14</sup> In 1966, the ILO adopted the Co-operatives (Developing Countries) Recommendation, 1966 (No. 127), which called for governments to aid cooperatives without affecting their independence. But by then, as Laidlaw described it, the cooperative 'movement' had 'three masters': the civil service, government ministers, and local politicians. This contrasted with the old colonial system, under which cooperatives were regulated by one 'master', the registrar of cooperatives. The system had been taken over at independence, and then used vastly to increase control over cooperatives.

### 1.3.3. The critique of cooperatives in the 1970s

By the mid-1970s, there was a growing awareness that 'the poor had not been reached'.<sup>15</sup> In 1975 an UNRISD report declared 'rural cooperatives have seldom achieved the development goals set for them by economic and social planners', and that 'They bring little or no benefit to the masses of poor inhabitants'.<sup>16</sup> The report based its findings on the stated goals of forty cooperatives in ten developing countries. It found that among the aims was one of equality - eliminating class distinctions and promoting an egalitarian society. But, as Laidlaw points out in a critique of this report, equality is not one of the cooperative principles. He criticized the UNRISD studies for failing to understand the nature of cooperatives. The researchers were not aware that cooperatives are owned by their members, and that

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<sup>12</sup> Verhagen (1984)

<sup>13</sup> Holmen (1990)

<sup>14</sup> Verhagen (1984) p3

<sup>15</sup> Verhagen (1984) p4

<sup>16</sup> UNRISD (1975) p10, and p ix

they do not create the environment they operate in. They neglected the issue of education and training for members, and did not theorize the relationship with government. Nor did they provide a substitute for cooperatives that might do the job better. In the same year, a World Bank Sector Policy Paper on Rural Development found that the experience with cooperatives was not all bad, and such organizations provided the participation and impetus in rural development programs that was hard to secure in any other way.<sup>17</sup> In 1976 the UN restated its faith that cooperatives are expected to generate social and economic benefits to low-income groups. In the same year Hans Munkner wrote an interesting report on the question 'Cooperatives for the rich or poor?' He distinguished between rich, relatively rich and poor peasants. Cooperatives attracted the relatively rich. Between the rich and the really poor there is a middle layer, and cooperatives could strengthen this layer by offering people a chance economically to work their way up. He argued that other means would be necessary to help the poor living at subsistence level, but that if the middle layer were to be cooperatively organized this could release resources, and enable governments to concentrate their efforts on programmes explicitly to help the poor.<sup>18</sup> The UN then commissioned the inter-agency Committee for the Promotion and Advancement of Cooperatives (COPAC) to undertake an evaluation study on the impact of UNDP projects on the conditions of the poor. The resulting symposium confirmed Munkner's findings, and suggested that special cooperatives should be set up for the poor.

#### 1.3.4. The ICA experts' consultation on cooperatives and the poor

An important landmark in this debate was the experts' consultation held by the ICA in 1977. The key questions asked of the experts were whether cooperatives have failed the people of developing countries, and whether they could still become a decisive factor in conquering poverty. They found that the political structures within a country frequently prevented cooperatives from reaching their potential, because cooperative principles such as voluntary membership were not applied. Cooperatives were a very imperfect embodiment, and occasionally a caricature, of the ideals of cooperation. In particular, they failed to enlist people as active members and even when they did this they frequently failed to give them the full benefits of membership'.<sup>19</sup> Yet the experts agreed that cooperatives could, 'theoretically and in the long run' solve the problems of development. They were a valuable means of *generating wealth*, but what they could not do was to *redistribute wealth*. This is a crucial distinction.

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<sup>17</sup> Laidlaw (1978) p72

<sup>18</sup> Munkner (1976)

<sup>19</sup> ICA (1977) p7

The experts concluded that the pattern of ownership and power was 'seldom decisively altered through cooperative activities'.<sup>20</sup> In some cases it was strengthened. The outcomes of cooperative enterprise were affected by the culture, the politics, the system of land tenure, level of education, and prevailing ethical standards of a country, and cooperatives were seldom able to generate the resources needed to relieve poverty. They concluded that there was no substitute for enlightened government policies, in land reform, credit allocation, education and social services. Cooperatives could only succeed in the right environment.

Within the cooperatives, one problem was that members often succeeded in achieving higher incomes for themselves, but they needed to rediscover the poor. They needed to give favourable treatment to poorer members, in services and costs. The experts considered the question of whether special cooperatives should be set up for the poor, but were against this because these might isolate poor people or stigmatize them. But the high relative cost of serving them needed to be overcome. The mixed membership cooperative was the way forward, but it had to educate its members to meet the needs of the poor.

In a background paper written for this consultation, Alex Laidlaw considered the idea of cooperatives of the poor, and decided they would fail. He suggested some social force beside poverty was needed to make cooperatives work, and warned against governments using them as a channel for welfare funds. The cooperative system does not have an inbuilt mechanism that automatically orients it towards the poor, but needs pressure from active members and outside agencies to make them live up to this aim. He also warned that traditional and informal kinds of mutual aid were not the same as formal cooperatives, and that the latter did not necessarily evolve from the former. He admitted the tendency for massive deterioration of cooperatives through misuse by politician and large proprietors, with officials diverting funds and services for themselves, but he also pointed to the potential that was shown by Japan's multi-purpose rural cooperatives, the Indian dairy cooperatives, and so on. There had been successes in nearly every country, but research had so far been preoccupied with failure.

He identified several important shortcomings. First, cooperatives did not bring structural change. Because of the way they were introduced, they contributed to the existing social structure, rather than seeing it as an obstacle to be overcome. A more realistic task for the state than cooperative development was the provision of infrastructure such as irrigation, schools, and roads, so as to create the *preconditions* for cooperatives. Second, cooperatives did not benefit the poor. They needed members who were able to pool their resources in order to reach a common goal. They needed

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<sup>20</sup> op cit p14

access to a market, and a surplus producing group of peasants. They could only function on an equitable basis when traditional dependencies had been relaxed. Third, they had poor quality of management. National planning departments had established them at a fast pace, beyond the availability of skilled managers. Fourth, they had never been truly autonomous. Neither before nor after independence have they been established from below as spontaneous self-help organizations. Peasants had often been coerced to join, or induced by the need for credit. They had monopolies in trade, with prices centrally determined, and had often been turned into instruments of taxation. Fifth, they were sexist, in that men were registered as members, while the women did most of the farming. They were seen by local people as mere external resources to be utilized. However, their bad reputation had little to do with the potential of the cooperative form. They had been instructed to do what they were not meant to do, and stopped from doing what they were good at. They were economic associations given political and social objectives they could not realise. They needed to emerge from below in response to felt needs. Much of the critique of the cooperative form of organization was therefore unjust and misdirected.

### 1.3.5. A new paradigm emerges

During the 1980s, much of the infrastructure for sustaining the cooperative sector in developing countries began to fall apart under the impact of internal budget constraints and external debt burdens and a consequent structural adjustment policy that forced many governments to privatize and deregulate their economies. Government has withdrawn from supporting cooperatives. Many have disappeared, many more are just surviving, but some have, under strong leadership and good management, begun to prosper as the autonomous businesses they should always have been. Recently, with help from international organizations such as the ICA and ILO, governments have been enacting new cooperative laws that confirm the status of cooperatives as independent, autonomous, member-owned businesses. They have the capacity to fulfil many tasks set by governments, such as to group primary producers together, to reduce unemployment, to provide consumer goods in rural areas, but they have to find their own ways of doing this, giving priority to the needs of their members. Sometimes they need financial help from government and international aid agencies, but it is now accepted that this will only be temporary, and that the emphasis of aid will be on human resource development and the creation of the background conditions for cooperation (light regulation, fair taxation, supportive legislation and so on) rather than on direct subsidy of the business.

The UN still sees cooperatives as an important means of creating employment, overcoming poverty, achieving social integration, and mobilising resources effectively. But the methods by which they will do

this have changed. There is a new development paradigm that emphasises a bottom-up approach that is much more in keeping with the way in which genuine cooperatives have always been created.<sup>21</sup> Perhaps the most dramatic way of understanding this new way of thinking is through Hans Munkner's reversal of the usual definition of a cooperative. He says:

*It is misleading to say that cooperatives have members. It is more correct to say that members have their cooperatives. Cooperatives do not help the poor but, by working together, by pooling their resources, by submitting themselves to group discipline and by accepting to combine self-interest and group solidarity, the poor can solve some of their problems by way of organized self-help and mutual aid better than alone.*<sup>22</sup>

This is the starting-point of this working paper, which aims to explore the relationship between cooperatives and poverty reduction through an understanding of the potential the cooperative form might have for enabling poor people to lift *themselves* out of poverty.

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<sup>21</sup> This can be traced back to 1979, when a World Conference on Agrarian Reform and Rural Development, held in Rome, culminated in the declaration of participatory development principles.

<sup>22</sup> Munkner (2001) p4



## The policy context for poverty reduction through cooperatives

# 2

If the Millennium Development Goals are to be achieved, in the next decade or so substantial progress will have to be made towards solving the problems of poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women. The MDGs provide a framework for the entire UN system to work together towards this common end.<sup>23</sup> The United Nations Development Group (UNDG) is in charge of the campaign and of the country-level monitoring of progress towards the goals. UN agencies, the OECD Development Assistance Committee, the World Trade Organization, World Bank and the International Monetary Fund are all involved in helping every developing country produce a report that shows what is the current situation in relation to the goals, how it intends to reach them, and how far it is progressing. Sixteen reports have been published so far, and nearly every developing and transition country is planning to produce its first report by the end of 2004. The UN Secretary-General made the first global report on implementing the Millennium Declaration at the General Assembly in October 2002.

The UN claims that 43 countries, with more than 60 per cent of the world's people, have already met or are on track to meet the goals. However, the World Bank's latest assessment is that the gap between rich and poor is growing, and that unless current trends are reversed the MDGs will not be met.<sup>24</sup> In regional terms, East Asia and the Pacific have made substantial progress, mainly because of high growth rates in China. In South Asia there has been a modest decline. In Latin America and the Caribbean there has been a decline, but the economic crisis in Argentina may reverse this. In Europe/Central Asia there has been a marked increase in poverty, due to the economic dislocation caused by the collapse of communist regimes, though the numbers are relatively small compared with other regions. Sub-Saharan Africa 'remains the greatest cause for

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<sup>23</sup> United Nations (2002a)

<sup>24</sup> World Bank (2002a)

concern' because, despite a slight decrease in the percentages in poverty, the numbers continue to rise.<sup>25</sup>

## 2.1. What is the role of cooperatives in achieving the Millennium Development Goals?

The UN regularly recognizes the contribution of cooperatives to poverty reduction. There are no separate UN structures that serve only cooperatives, but the General Assembly, the Economic and Social Council, the Department for Policy Coordination and Sustainable Development, and specialist agencies such as the ILO and FAO have been working with cooperatives for many years. The ILO's Cooperative Branch is notable, having been established as long ago as 1920. Every second year, the UN's Department for Policy Coordination and Sustainable Development prepares the UN Secretary-General's report on cooperatives to the General Assembly, in collaboration with the Committee for the Promotion and Advancement of Cooperatives (COPAC).<sup>26</sup> In 1994, the Secretary-General concluded that

*Cooperative enterprises provide the organizational means whereby a significant proportion of humanity is able to take into its own hands the tasks of creating productive employment, overcoming poverty and achieving social integration.*

He went on to say that cooperatives

*continue to be an important means, often the only one available, whereby the poor, as well as those better off but at perpetual risk of becoming poor, have been able to achieve economic security and an acceptable standard of living and quality of life<sup>27</sup>*

The 1995 World Summit for Social Development declared itself fully committed to utilizing and fully developing the potential and contribution of cooperatives to the eradication of poverty. In 1996 a resolution was adopted at the UN General Assembly urging that due consideration be given to the role, contribution and potential of cooperatives in achieving social and economic development goals. UN guidelines on the role of cooperatives in social development were adopted in late 2001. In June 2002, the International Labour Conference adopted a new Recommendation (No. 193) concerning the promotion of cooperatives. This revised the ILO's previous Recommendation dating back to 1966, which reflected the concern of that time with cooperatives as a tool of development, and was

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<sup>25</sup> World Bank (2002c) p1

<sup>26</sup> ILO (2001c) section 7.3

<sup>27</sup> ICA (1996)

restricted to developing countries.<sup>28</sup> These new instruments draw on work done by the ICA during the early to mid 1990s to reformulate a set of values and principles by which the distinct nature of cooperatives can be recognized. ILO Recommendation No. 193 recognizes the need for governments to provide a supportive framework for cooperative development, but insists that cooperatives are autonomous associations of persons that have their own values and principles. This means that promoting cooperatives as ‘tools’ of development is wrong; assistance has to be given to the *members* - to create income-generating activities, gain access to markets, improve their own social and economic well-being – while respecting their autonomy.

So there is no shortage of positive statements recognizing the role of cooperatives in poverty reduction. Given this supportive environment for cooperatives at the level of UN institutions, it is a little disappointing that the MDG literature does not make explicit mention of cooperatives. A recent report of the Secretary-General does endorse the promotion of micro-finance as a ‘best practice’ that enables poor people to create economic opportunities for themselves<sup>29</sup>, and banks owned by the poor are essentially cooperatives. More generally, the UN takes a ‘cooperative’ approach to development. It insists that development must be community-driven, with funds channeled directly to community groups, and with capacity building of self-help groups being the key to success. All of this should provide an agenda for cooperatives and other local self-help groups when it comes to implementing the MDGs at country level and in different economic sectors.

## 2.2. The World Bank’s Poverty Reduction Strategy

The pursuit of the Millennium Development Goals by UN development agencies is coordinated through the UN’s Development Assistance Framework that aims to link their work together towards the goal of reducing poverty. The UN puts great emphasis on reports produced for each country, as the main way in which the goals can be turned into practical activities on the ground. The MDG reports build upon other reports already being produced, such as National Human Development Reports, Common Country Assessments and the World Bank’s Poverty Reduction Strategy Papers (PRSPs).<sup>30</sup> The work of the international financial institutions - the World Bank and the International Monetary Fund (IMF) - forms a parallel track to the UN agencies in relation to the goal of poverty reduction. The Bank has responsibility for the ‘structural, social and human’ aspects of development, while the IMF is responsible for

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<sup>28</sup> See Levin (2001)

<sup>29</sup> United Nations (2002d)

<sup>30</sup> United Nations (2002b)

macro-economic stabilization. After a decade of structural adjustment programmes that had, in many countries, failed to deliver economic growth and had sometimes worsened the situation of the poor, the President of the Bank proposed in 1999 a Comprehensive Development Framework that would take account of the human as well as the macroeconomic aspects of development.<sup>31</sup> The framework includes structural factors such as good government, an effective legal system and financial system, human factors such as education and health care, and physical factors such as water supply, roads, and a sustainable environment. It is when we come to the specific strategies that cooperatives come into view. A rural strategy would include a range of market mechanisms such as credit for farmers, storage, transport and marketing, all of which are usually provided by farmer cooperatives. The importance of civil society is emphasized, and local non-governmental organizations and local groups organized for implementation of projects are regarded as important. Again, these are likely to take a cooperative form, even if called by other names.

The Comprehensive Development Framework led to the PRSPs. The Bank and the IMF decided to base all their concessional lending and debt relief to the 'heavily indebted poor countries' on the PRSP for each country. The business plans for each low-income country will be based on them, which means that they are very important to the future of around 70 countries. They are also important to the external development partners who will be providing aid to these countries, as their work will be based on the priorities identified in the strategy papers. The Bank has five principles underlying its poverty reduction strategies. The work has to be country-driven, so that it results in real action on the ground that is appropriate to the local context. It has to be results-oriented, so that it is not measured merely by the amount of inputs used but by its effects on the poor. It has to be comprehensive in recognizing the multidimensional nature of poverty. It has to be partnership-oriented, involving the coordinated participation of development partners whose work will also be more and more aligned towards the PRSPs. Finally, the Bank sees development as a process of societal transformation, and so expects the reduction of poverty to be a long-term project. There are three key steps needed: to develop a comprehensive understanding of poverty and its causes, to choose the mix of actions that have the highest impact in reducing poverty, and to monitor the process with outcome indicators.<sup>32</sup>

The PRSP literature constantly emphasizes the participation of the poor in the process, but it is not always clear what this means. There are two levels, the national and the local. At the national level, governments should encourage their citizens to participate through civil society

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<sup>31</sup> World Bank (1999)

<sup>32</sup> ILO (2001c)

organizations in the preparation and monitoring of the PRSPs. The PRSP Sourcebook suggests that the poor must be involved in this process, since they are also part of civil society, they are the experts on poverty, and they must support societal transformation if it is to deliver the benefits to them. The problem is that there are few, if any, organizations representing the poor at the national level. Cooperatives are not mentioned, but where there are cooperative apex organizations, clearly they ought to be involved in the process. At the local level, the poor should be directly involved in the development process as partners with NGOs and local governments. The literature emphasizes the need not just for the participation of the poor, but also for their empowerment. The obvious point is that to be empowered the poor usually need to organize collectively. The PRSP guidance is quite vague about what kind of organization might be needed. It would have to be democratic, have economic aims, be owned by the poor themselves, and return the benefits of collective action to them. The cooperative form has all these features.

It is likely that, as the PRSP process continues, the role of cooperatives will become more recognized. For instance, recently an African Forum on Poverty Reduction Strategies identified the need to improve agricultural productivity, and the problem that ‘unfettered markets leave small, atomized and isolated poor producers behind’. We have been here before. Farmers have found many times that the only way they can gain the strength to operate in emerging markets without being ignored or exploited is through forming their own cooperatives. The Forum recognized this when it reported:

*Most countries are looking for new institutional mechanisms (such as cooperatives) to provide agricultural inputs, rural credit, extension services, and maintenance of rural roads* <sup>33</sup>

A recent review of the PRSP approach has found that the development of the country reports is a major challenge for low-income countries, and that there is a need for realism about what they can achieve. There is evidence that the active involvement of civil society has influenced the content of PRSPs, but only to a limited extent. Organizations that are out of favour with government, trade unions, women’s groups, and direct representatives of the poor have not always been fully involved.<sup>34</sup> Also, when there is participation it tends to be limited to information sharing and consultation in the preparation of strategies, and to involvement at the local level in targeted poverty reduction programmes. Efforts also need to be made to reach out to traditionally marginalized groups. Rural development has been incorporated into the strategies, but the discussion of the institutional framework for implementation of such development is

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<sup>33</sup> World Bank (2001)

<sup>34</sup> World Bank/IMF (2002)

‘generally vague’ and so difficult to evaluate.<sup>35</sup> More generally, there is a need to deepen efforts to understand the linkages between policy actions and pro-poor growth.

Cooperatives will not solve all these problems, but they ought to be part of the solution. At the national level, where there is an organized cooperative federation it ought to make a contribution to the strategy process, and the strengthening of cooperative federations ought to be a part of the strategy. At the local level, cooperative forms of organization should be used more explicitly so that action has greater chance of successfully reaching and benefiting the poor. Existing cooperatives should be strengthened, expanded or replicated to meet the needs of poor people who would like to become members, and new cooperatives should be formed to meet needs identified by the poor themselves.

### 2.2.1. Opportunity, empowerment and security - the contribution of cooperatives

One way to explore the contribution of cooperatives more systematically is through the World Bank’s three notions of opportunity, empowerment and security. *Opportunity* means that poor people have the chance to lift themselves out of poverty and all the other forms of deprivation that go with it. On the supply side, opportunities are created when economic growth is stimulated and markets are made to work for poor people. On the demand side, poor people must have the capacity to take advantage of the opportunities, and this means building self-confidence through education, training, and self-organization. Cooperatives have a contribution to make both on the supply and demand sides. They open up markets by organizing supply of inputs and marketing of outputs. They provide a means by which credit can be given when needed, and a safe form in which poor people’s savings can be invested. Because they tend, through natural extension, to federate into larger bodies, national and international markets can be opened up. At several times in the history of cooperatives, international cooperative trading organizations have been created that have significantly improved the export potential of producer cooperatives, and the importing activity of consumer cooperatives.<sup>36</sup> We will be illustrating in Chapter Three how, at the local level, cooperatives are particularly good at raising the incomes of women, tribal peoples and the landless poor. The cooperative method can also be used not just directly in productive sectors such as agriculture or handicrafts, but also in the provision of infrastructure such as water supply and irrigation, and in environmental schemes. Wherever, at the local level, the self-organization of the poor is needed – and it is always needed if improvements are to be

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<sup>35</sup> Op cit, p17

<sup>36</sup> See Birchall (1997)

sustained – there we will find cooperatives or similar member-based self-help organizations.

The second theme, *empowerment*, is defined by the World Bank as ‘the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives’.<sup>37</sup> It means expanding the freedom of choice and action to shape one’s life. In the development process, it means that wherever possible poor people should have as much control as possible over the resources being invested, and over the decision-making process. It has been recognized for a long time that without the participation of the beneficiaries it is difficult to make development aid effective.<sup>38</sup> Unless poor people own the solutions being tried, then there will be no solutions, at least none that are sustainable.

A World Bank sourcebook on empowerment says that there is no single institutional model for empowerment. While this is true, and we do not want to go back to the modernist attempt to use blueprints to replicate so-called people’s organizations, it is also true that where people are individually powerless there have to be strong local organizations of one kind or another. Right from the beginning of the nineteenth century, the cooperative movement has relied on the strength that comes from acting collectively to empower individuals. It is likely that whether we call them cooperatives, community associations, farmers’ organizations or something else, they will have cooperative characteristics; member-based organizations set up for economic aims, with one person one vote and with all surpluses returned either to individual members or to the community as a whole. They may be more or less formal, or may begin by being informal and later reach a stage where they become formalized in some way, and subject to cooperative laws.

Because poverty is multi-dimensional, such community-based organizations are likely to be engaged in a wide variety of activities, wider perhaps than those types of activity engaged in by established cooperatives. In rural areas, they will be gaining access to markets through supply and marketing cooperatives, but also improving the environment by afforestation, providing water supply and irrigation, and so on. They will be supported by micro-credit schemes that are also run along cooperative lines. However, there are some things that community-based organizations cannot, and should not, provide. The wider infrastructure within which they are set has to be the responsibility of local and regional governments. Decentralization of government is important because it makes it easier for civic organizations to make demands, track public spending, and hold politicians to account. Governments may contract with local cooperatives

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<sup>37</sup> World Bank (2001b) Summary: a Framework for Empowerment, p2

<sup>38</sup> See eg Verhagen (1984)

to provide education and health care, and teachers, pharmacists and doctors often form cooperatives to help them in their work, but these services remain the responsibility of government. The distinction was made early in the twentieth century by Beatrice Webb, who distinguished between compulsory and voluntary cooperation.<sup>39</sup>

The sourcebook identifies four elements that are almost always present in successful efforts at empowerment: access to information, inclusion and participation, accountability and local organizational capacity. These strengthen the demand side of governance, both of the governance of development projects and also, ultimately, of institutions such as the legal system, local government and the civil service. The Bank admits that, while all four elements are present in its projects, the last one, organizational capacity, is the least developed. Its note on the 'Four Elements of Empowerment' does not use the word 'cooperative' but describes 'membership-based groups' that work together to solve problems of common interest. It does not refer to cooperative federal bodies, but does express the hope that these groups will federate at higher levels so as to gain a voice in policy dialogues.<sup>40</sup> This is about as close as one can get to describing cooperatives without using the term. Elsewhere, the Bank refers to farmers' groups, neighbourhood clubs and people's organizations, but tends to avoid using the term cooperative. Perhaps we need to make a distinction between genuine member-based organizations and the parastatal 'cooperatives' that governments used to create for their own purposes, in what we have called the 'modernist' period. However, that period has now come to an end. In avoiding the use of the term cooperative we may be in danger of neglecting the very real achievements of a cooperative movement that has been a significant part of developed country economies for the last 170 years, and that has also, despite the misuse by governments, made a significant contribution to the economies of developing countries over the last fifty years.

Even if there are strong local organizations, they may still be disconnected from local and central government and from the private sector. Cooperatives can also be isolated, and may like other local groups be high in 'bonding social capital', but not be able to find the 'bridging social capital' that will link them to others.<sup>41</sup> If they are encouraged to form vertical federations and horizontal networks, and if cooperative laws are passed that recognize their right to do this, they can overcome this problem. Cooperation between cooperatives is one of their principles, and wherever they have been successful, cooperatives have formed regional, national and transnational federations. The recent work of the ILO Cooperative Branch, in partnership with the International Co-operative Alliance, includes the

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<sup>39</sup> See Birchall (1994)

<sup>40</sup> World Bank (2002f) p3

<sup>41</sup> See Putnam (2000)

COOPREFORM Programme to assist member states to draft new cooperative laws and to strengthen cooperative federations.

The history of cooperatives shows that they flourish best in a society where civil liberties are strong and governments democratic and accountable. Where these conditions do not apply, the historical experience of cooperatives - particularly of the period before the Second World War in Italy, Germany, Japan, and Spain - shows that they tend to be destroyed, or taken over and used for different purposes. Totalitarian regimes cannot tolerate free and open member-based organizations. Where the conditions for a civic society are difficult but not impossible – as in Britain in the 1840s when the Rochdale Pioneers set up the cooperative on which all others have been based - cooperatives can provide a ‘school for democracy’.

The third theme, *security*, means taking measures to reduce poor people’s vulnerability to risks. There are natural risks such as from flooding, droughts or earthquakes, health risks from epidemics, personal injuries or the effects of old age, social risks from crime, domestic violence, civil strife or war, political risks from riots and coups, and environmental risks from pollution or deforestation. They can occur at the micro, meso or macro levels, affecting individuals, villages or entire countries. These distinctions are important because risks need to be pooled. If a risk affects an individual (is idiosyncratic), then conventional insurance can work well. If a risk affects a whole community (is covariant), then it cannot be insured from within the community but has to be dealt with at the country (macro) level. Exposure to risk and vulnerability are not the same; risk exposure measures the probability that a risk will occur, while vulnerability measures the degree of resilience against a shock. When a shock occurs, people who are not poor can easily slip into poverty. It partly depends on the frequency of shocks, and on the degree of vulnerability. It is a characteristic of the poor and the nearly poor that their incomes tend to fluctuate widely, and any interruption in work through illness or unemployment will soon result in a crisis.

People have strategies to manage risk. First, they choose to engage in safer but low–return activities; as a World Bank report points out, ‘poor people are highly risk-averse, and reluctant to engage in the high-risk, high-return activities that could lift them out of poverty’.<sup>42</sup> Second, when they receive a shock they try not to use up their assets such as livestock or savings, even if this means going without food or putting their children to work. When they have to resort to moneylenders or to sale of assets, they know that this will lower their ability to cope with further shocks in the future. Third, through mutual aid in savings and loans clubs, they build up a source of help for individuals who are in trouble. But there are limits to the

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<sup>42</sup> World Bank (2001b) p138

extent to which mutual self-help can mitigate large shocks, particularly if these affect everyone in the group. Development agencies need to produce their own risk management strategies that can help poor people survive the shocks without sliding deeper into poverty, and can provide them with more options than using up their precious assets or going into debt. Strategies can be classified into those that reduce and mitigate risks and those that cope with shocks after the event.<sup>43</sup> The World Bank report considers various options to mitigate risk, including micro-insurance delivered along with micro-credit schemes for poor women, public works schemes, food aid and so on.

What have cooperatives to offer in the management of risk? They can help to reduce the risk to *individuals* through pooling risks at the level of the enterprise. Typically, as soon as cooperatives become large enough they offer their members insurance. Agricultural cooperatives in the developed world provide a wide range of insurance products to their members; in Japan and the United States, for instance, their insurance arms have become some of the biggest insurers in the world. Traditionally, consumer cooperatives in the UK used to offer their members free life insurance. The Mondragón cooperative system offers its worker-members a full range of social security benefits, including pensions. In developing countries, few cooperatives have the capacity to offer this much cover. Micro-credit enterprises and cooperatives have proved to be effective in delivering publicly funded health and social insurance to very poor people. They are particularly effective in offering contributory insurance schemes in the informal economy, where they are the only organizations that can be trusted and have the organizational capacity to collect contributions and pay benefits. As one commentator sums up:

*The success of the cooperative structure and the cooperative philosophy in satisfying the needs of the poor in an effective and flexible manner makes it a good candidate for channelling insurance products to the poor*<sup>44</sup>

Cooperatives also have the capacity to reinsure each other. For instance, the International Co-operative and Mutual Insurance Federation has arranged reinsurance for the Asian Confederation of Credit Unions, to make sure that its micro-insurance programs remain sustainable. In Mali, a national health development programme is using the existing solidarity of mutuals, their member-focus and not-for-profit basis as a way to deliver health insurance to the poor. Cotton workers contribute to a scheme run by their cooperative by providing a proportion of their cotton crops.<sup>45</sup>

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<sup>43</sup> Op cit, Ch.8

<sup>44</sup> Patel (2001) p27

<sup>45</sup> Op cit, appendix 4

Cooperatives and similar organizations can help reduce the risks to whole *communities*, through connecting them up to wider markets, and diversifying sources of income. Through providing short-term credit and a safe place to put savings, they can help their members ride out seasonal shocks such as harvest failures or falls in market prices. Through linking up to fair trade organizations in the developed world, they can have some effect on the terms of international trade. Cooperatives cannot do much about the macro-level man-made risks such as the overthrow of elected governments or civil war, but they can contribute to the kind of civil society that makes these risks less likely. They cannot do much about the macro-level natural risks of drought or earthquake, but they can help to limit the damage such shocks will do by, for instance, providing irrigation schemes, food storage facilities, and earthquake-proof housing. After a crisis, cooperatives have a key role in the recovery process. Self-build cooperatives can help rebuild housing, mutual insurers can help with financing reconstruction, consumer cooperatives can distribute emergency food supplies (as they did to good effect after the Kobe earthquake in Japan). Agricultural cooperatives can respond to droughts by making more effective use of water, holding grain banks, and so on.<sup>46</sup>

### 2.3. The Food and Agriculture Organization and farmer cooperatives

The development of rural economies is the particular concern of the UN's Food and Agriculture Organization (FAO). Its attitude to cooperatives is a positive one, though because of the legacy of past mistakes it is reluctant always to use the term, preferring synonyms such as 'farmer-owned businesses' or 'rural people's organizations'. This is understandable; as we noted in Chapter One, a great deal of disappointment has been caused by government sponsored multi-purpose agricultural cooperatives that were set up in many developing countries in the post-war period. However, it is difficult to imagine doing without some kind of cooperative group of farmers in any attempt to raise the incomes of the rural poor. For instance, an FAO study of six recent development projects shows that five out of six needed some kind of cooperative group, not necessarily a formal cooperative society but a participatory farmers group or village management committee.

The common elements are clear; all farmers need inputs that are controlled for quality and price, and they need marketing to save them from being exploited by middlemen who take most of the profits. They face uncertainty and need to be helped through times of crop failure, poor yields, through mutual insurance and farm credit. These are constants. The variable is the extent to which a particular group of farmers have the awareness of cooperative organization, the capacity for self-organization,

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<sup>46</sup> Parnell, (2001)

and the technical, legal and financial help they need to set up and run a cooperative in the long term. When they reach a certain level of development, they federate into larger organizations that then provide services to member cooperatives. The elements of the cooperative system are based on a set of constant requirements that vary greatly in their context and detail while remaining relatively predictable across sectors and countries. That this is true is illustrated by the way in which farmers in Central and Eastern Europe, having rejected what they see as cooperatives (the discredited, parastatal institutions of the old communist regimes), have to reinvent real cooperatives again to meet their needs, but under a new name. A recent Millennium Survey by the International Federation of Agricultural Producers (IFAP) on actions to reduce rural poverty recognises these constants, when it concludes that out of ten reasons for rural poverty, the three that are most amenable to action are infrastructures, farm inputs and marketing, all of which can be provided by farmer-owned businesses.<sup>47</sup>

## 2.4. The International Labour Organization's Decent Work framework

Towards the end of the twentieth century, the World Bank was not the only international agency that set about redefining its role. The ILO undertook a fundamental re-examination of its aims and objectives, and re-oriented itself around the theme of 'decent work'. It began with the World Summit for Social Development (the Copenhagen Summit) of 1995, at which heads of state made a unanimous declaration concerning the right to decent work, which led to the 1998 ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up. A process of reform and modernization of the ILO began in March 1999 with a budget proposal to move from 39 major programmes to four strategic objectives: fundamental principles and rights at work, employment, social protection, and social dialogue. Then, in 1999 the Report of the Director-General to the 87<sup>th</sup> session of the International Labour Conference proposed that securing 'decent work' should become the primary goal of the ILO for the new century, incorporating the four strategic objectives into one single message.<sup>48</sup> Why focus on decent work? The Director-General gave two reasons. First, there is a fundamental human need for it; it is 'the most widespread need, shared by people, families and communities in every society, and at all levels of development'. Second, it is a way of creating a unity of purpose among the ILO's three constituents: governments, employers and workers. Later, he also made it clear that the new focus also gives the ILO a 'sharper policy identity' in relation to other international

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<sup>47</sup> IFAP (2000)

<sup>48</sup> ILO (1999)

institutions<sup>49</sup>, though it also brings with it the need to work out in detail how it relates to the UN imperative of poverty reduction.<sup>50</sup>

After the Social Summit of 2000, a Special Session of the UN General Assembly gave explicit backing to the ILO's Programme on Decent Work; in fact, it has received backing from all quarters of the international community. But how does the ILO strategy complement that of the World Bank and other agencies working on the aim of poverty reduction? It used to be thought that there was a simple linear relationship between economic growth, increased employment and poverty reduction, but the relationship is far from simple. Growth may not lead to new employment opportunities, if it is based on capital-intensive industry. Employment may not reach the poor if they do not have the skills needed or are prevented by more powerful groups from applying for jobs.<sup>51</sup> What is simpler is the relationship between the poor and income – the higher the income the less they are in poverty. This is true even though poverty is multi-dimensional, because empirical studies have shown that higher income does enable people to send their children to school, buy better health care, improve their housing, and gain less tangible benefits such as increased self-confidence, and a more demanding attitude to government services.

What is the role of cooperatives in providing decent work for poor people? We start from the understanding that economic development and social development are two aspects of the same process. The goal of decent work is economic growth with social equity. If the institutions are right, economic and social efficiency go together. But what sort of institution creates this synergy between the two? This is a big question, but we should note here that economic activity and an equitable distribution of the results are built into the very structure of a cooperative.

#### 2.4.1. The decent work strategy and cooperatives

The ILO has four strategic objectives: promoting rights at work, increasing employment and incomes, extending social protection, and strengthening social dialogue. It is important that the potential of cooperatives is evaluated in relation to each of them. Cooperatives are ethical organizations, and so appeals to them to respect *human rights* as employers should be well heeded. They are meant to be open to anyone who can use their services without discrimination, and so they ought to respect the idea of non-discrimination in other respects as well. They are member-owned, operate on the principle that voting is based on people and not capital, and so they should guarantee that their workers have the right to

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<sup>49</sup> ILO (2001a) p1

<sup>50</sup> ILO (2001c)

<sup>51</sup> See Osmani (2002)

organize in the same way. Worker cooperatives, of course, have the rights of workers in mind from the start. The abolition of child labour and bonded labour requires that household incomes can be raised by other means. Cooperatives, where they help to raise their members' incomes, are indirectly preventing these more exploitative forms of labour. Consumers in developed countries seeking to exercise some control over the way goods are produced can link up with producer cooperatives to ensure 'fair trade'.

In relation to *employment and incomes*, there is a need to tackle two related problems: low returns to labour and under/unemployment. There are three causes of low returns to labour: competition from potential entrants to the labour market which drives down wages; poor productivity because of low level of skill or technology; and adverse terms of trade that make it not worthwhile for people to earn more even if they could.<sup>52</sup> There are a variety of potential cooperative solutions to these problems. For instance, labour cooperatives can help organise people who want to enter the labour market and protect them from being exploited. Shared service cooperatives can help to improve productivity in small businesses.<sup>53</sup> The adverse terms of trade can be tackled by supply cooperatives that lower the cost of inputs, and by marketing cooperatives that achieve higher prices for farm products and finished goods.

In the 1970s and 1980s a wave of redundancies hit the formal employment sector in Western Europe, as whole industries underwent a painful process of 'downsizing' and restructuring brought about by a slump in world trade, and by the accelerating process of globalization. In several countries, worker cooperative takeovers saved many businesses that were in trouble, explicitly to try to save jobs. The results were mixed, but in North Italy and Spain quite large clusters of worker cooperatives have emerged and stabilized. When a cooperative group is itself a major employer, it can have policies to guarantee employment; the Mondragón cooperative system in the Basque region of Spain has combined economic strength with solidarity, in its pledge not to make any worker-members redundant, but to transfer surplus workers to other cooperatives. Consumer cooperatives are major employers because distribution and retailing are very labour-intensive. To the extent that they are successful they also create new opportunities for employment. The recent restructuring of five consumer cooperatives in Armenia, for instance, has resulted in the creation of 990 new jobs.<sup>54</sup>

Underemployment is a particular problem in the informal economy. The ILO has been working in this field for a long time, but its development staff admit that there is still a need to find ways of working; 'the critical problem is one of agency', and there is 'a need for new actors and new

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<sup>52</sup> Op cit

<sup>53</sup> See Schwettmann (ILO, 2002b)

<sup>54</sup> Altshul (2002)

institutions to raise skills, open markets and improve working conditions'.<sup>55</sup> Such institutions are likely to take the form of shared service cooperatives. For instance, the ILO's Promicro program in El Salvador has promoted associations of small-scale operators along with micro-finance institutions.

Extending *social protection and social security* is a goal we have already discussed above, in relation to the World Bank's notion of 'security'. Cooperatives and similar organizations also have a role to play in the last of the ILO's goals, strengthening social dialogue. There is a need to attract active support for, and widespread commitment to, the goals of decent work and poverty reduction from all three of the ILO's constituent groups: governments, employers' organizations and trade unions. Cooperative development is, of course, only one of the building blocks, but it should attract support from all three groups. For governments, cooperatives are a building block of civil society. They are economic rather than political organizations and so do not compete with political parties, but they do provide important sources of social capital or 'civic virtue' on which politics depends. In rural areas, and in the informal economy, they are often the only organizations that governments can deal with. They supplement local government by providing a tax base, making demands for infrastructural developments, and providing feedback on how local government agencies are performing. For employers, they are entrepreneurial businesses that have the potential to encourage the development of markets, through encouraging the participation of people who otherwise would be economically excluded. When their members are themselves self-employed business people – such as farmers or small traders – they can provide shared services that enhance the survival and growth rates of individual businesses. For trade unions, they are significant because they have the potential to employ many unemployed and under-employed people. To the extent that they grow in size and extent, they have the potential to formalize parts of the informal economy, and to extend protection to unprotected workers that trade unions find hard to reach. They are formal, socially responsible organizations in which it is comparatively easy for trade unions to organize. Depending on their type, cooperatives allow workers to be organized separately alongside members, or bring them directly into membership.

Another way of looking at the work of the ILO is through the three broad policy areas identified in the Director-General's report on Decent Work: development, gender and the enterprise. On *development*, the report declares 'The time has come to establish a coherent ILO policy for the working poor'.<sup>56</sup> This means building institutions for participation. Cooperative development, if done in a participatory way, could be the main

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<sup>55</sup> ILO (2001a) p30

<sup>56</sup> ILO (1999) p9

way in which to build such institutions. On *gender* inequality, the ILO recognizes that women are economically more vulnerable than men and are discriminated against in employment. The aim is to identify the forces that lead to inequality and to ‘mainstream’ the gender perspective. Cooperatives have quite a good track record in empowering women as members, but their record is patchy and much still needs to be done to make them sensitive to gender issues. There is no doubt, though, about the track record of women’s micro-credit schemes and cooperatives. These have proved their worth in many different contexts as ways of directly empowering women by raising their incomes and increasing their self-confidence and social status. On *enterprise* promotion, the ILO has a long track record of support for both private small enterprises and cooperatives. Cooperatives have already demonstrated that they are a vital part of the small enterprise sector, with the potential to grow, to formalize the labour of unprotected workers, and to expand the opportunities for employment. Their potential is recognised by the ILO, in its work in promoting local economic development agencies whose remit is to develop both small private businesses and cooperatives.

The ILO is currently trying to influence the PRSPs to take account of the objectives of the Decent Work framework. In a pilot programme with five governments and their social partners, the aim is to build in a decent work component to the final PRS country papers. The lessons learned from this pilot will then be made available to the many other countries that are engaged in the PRSP process. A related initiative concerns operationalizing the aim of decent work in the national development strategies of three more countries. In the background, there is work going on to ‘deepen the intellectual underpinnings of decent work in relation to poverty reduction’. It is to be hoped that the more the ILO integrates its decent work programme with the aim of poverty reduction, the more it will recognize a positive role for cooperatives. There is still work to be done in this direction, though. The Decent Work report published in 1999 said that the ILO is looking for partners in programme delivery. It mentions NGOs, business associations, trade unions, and women’s groups but not cooperatives.<sup>57</sup> However, more recently a workshop on ‘Decent work and poverty reduction’ concluded that ‘working with cooperatives offers a lot of opportunities’.<sup>58</sup> In Chapter Three we will be presenting case studies that help us to identify some of those opportunities.

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<sup>57</sup> ILO (1999) p60

<sup>58</sup> ILO (2002b) p17

## Case studies in cooperative development

# 3

The case study method is useful in illustrating the relationship between the cooperative form and poverty reduction, provided that certain criteria are met. Obviously, the case has to be a genuine cooperative, which means an autonomous organization accountable to its members, and run by an elected board. We have to be sure that the members are - or were when they joined the cooperative - poor, and that the cooperative has increased their disposable incomes. The case should be innovative and forward-looking, so that it shows the potential of the cooperative form, but it must also be replicable; there is no point in discussing a cooperative that has unique features that make it of limited relevance in other situations. It should provide a simple and straightforward way of meeting the needs of its members. There is no point in discussing a cooperative that is too complex and beyond the skills and experience of those who are going to oversee and manage it. Of course, the cases should all be economically viable, but they should also be as good as, or superior to, other non-cooperative alternatives that are available. The following case studies all meet these criteria.

### **Case study 1: Tenant takeovers of abandoned housing in New York**

Mention housing cooperatives in New York, and people will usually think of exclusive apartment blocks in fashionable areas, where a 'co-op' home sells for an impossibly large amount and even those who can afford it have to be vetted by the co-op's management committee for their suitability. These are 'market value' cooperatives, in which the shares that give the 'right to occupy' are sold on the open market. But there is another form of 'limited equity' cooperative that has been used successfully by some of the poorest people in the city to preserve and rehabilitate their homes. In the 1960s the City of New York began foreclosing on thousands of landlord-owned properties for non-payment of taxes. The landlords responded by abandoning their tenement blocks, or setting fire to them to get the insurance; by the late 1960s an average of 38,000 units a year were

being abandoned.<sup>59</sup> Squatters moved into empty buildings, and tenants fought back by forming campaigning organizations and clubbing together to renovate their homes. The City Council responded positively, selling the tenements for US\$1 to tenant cooperatives and giving them low-interest loans for renovation. Tenants used their own 'sweat equity', learning building skills and renovating their tenements themselves, and in the process increased their employability in the local job market. Later projects built on this with an on-the-job training component funded by an employment training act programme.

In 1975 the City of New York had a major financial crisis, and most of the funding programmes collapsed. However, the institutions for cooperative development had by then been developed; 'neighbourhood housing developers' had formed their own federation, and a cooperative development agency, the Urban Homestead Assistance Board (UHAB), had been founded. There were delays in funding that sapped people's morale, friction with contractors, and internal disagreements about the amount of sweat equity individuals were putting in. But the movement was unstoppable, and the City began a community management programme whereby tenants could manage their blocks and prepare more carefully for tenant-ownership. The tenant groups, led mainly by women, went on to challenge new threats to their homes from hospitals wishing to expand into surrounding areas, and from landlords wanting to evict them so as to get round rent restrictions and rent to higher-income tenants.

The result is that now more than 27,000 families live in low-income cooperatives. Conversions have been going on for 25 years. UHAB works with more than 1,300 buildings, offering technical assistance, management training classes and emergency support programmes. It has recently secured funding from a federal 'connecting communities' grant to provide wiring, computers, and computer training for tenants, most of whom earn less than US\$15,000 a year. This develops employment skills, self-confidence and civic activism. Cooperative leaders have formed Neighbourhood Networks which are active in crime prevention, cleaning up parks, creating fuel cooperatives to deliver cheaper fuel to their members, and so on. A citywide coalition of cooperative leaders is active in the political arena.

A recent study has found that resident participation reduces operating costs compared to other forms of rental housing. There are intangible benefits too, such as the empowerment of low-income people, increasing civic participation, the development of social capital, increased job opportunities, and the chance to accumulate some wealth.<sup>60</sup> The statistics are impressive. The average income in a city-owned building is US\$9,709.

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<sup>59</sup> Lawson (undated)

<sup>60</sup> Saegert and Winkel (2000)

After joining the Tenant Interim Lease Scheme, the average rises to US\$11,948. When this develops into a tenant cooperative, the average rises again to US\$14,782. It is not that the original tenants are displaced by higher income tenants; cooperatives have the longest length of residency. Upward economic mobility is the only explanation; residents' incomes increase during the course of the programme, probably because the skills and experience they gain make them more employable. They also have low housing costs, with an average monthly payment for cooperative members of only US\$325. This means they have a higher disposable income with which to take advantage of opportunities to start small businesses, for example.<sup>61</sup>

## Commentary

This form of cooperative is spreading to other parts of the United States; there is one cooperative already in New Jersey. In several countries – notably Germany, Norway and Scotland – conversions of public housing to cooperatives have been achieved, bringing new investment, both in renewal of physical infrastructure and housing, and also in the social capital that is needed to make high density, low-income housing estates work. The New York cooperative development specialists at UHAB have recently been advising Russian housing specialists. This form has the potential to solve the huge problems of disrepair and poor management in apartment blocks left behind by the demise of the Soviet Union. During the communist regimes in the CIS countries and in Central and Eastern Europe, the housing system consisted of state housing, focused on the needs of enterprises to house key workers, supplemented by cooperatives that were able to draw in some of the workers' savings. The cooperatives were not autonomous, and often there was confusion as to who was responsible for management and maintenance. A policy of low, non-economic rents led to large backlogs of repair and maintenance, because the system never generated enough funding to pay for the upkeep of the housing stock. Though the reasons for the housing crisis are different, the needs are similar and the solution may be found also in the handing over of apartment blocks to their tenants as cooperative owners.

How applicable is this form of housing solution to developing countries? It is being tried in South Africa, where a mutual housing agency, COPE, began in 1997 to transform itself from being a donor-funded NGO into a member-based housing association, establishing housing cooperatives that are similar in structure to those in New York. The circumstances are similar, too; in Johannesburg there are thousands of people living in apartment blocks abandoned by their owners. Like UHAB in New York, COPE helps tenants to organize, get secure tenure to their

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<sup>61</sup> UHAB website, 'Statistics' section

buildings, renovate them and provide ongoing management and maintenance. So far, it has assisted 124 tenants in three apartment blocks to buy their housing collectively. It is also building new housing cooperatives and will soon have around 1,100 units in management. There is no doubt that these schemes provide the same kinds of benefits as in New York, in particular making it safer for women to live in the inner city.<sup>62</sup> The important question is whether these schemes are affordable to low-income people. On the one hand, COPE favours single parents, and more than half the households are headed by women. The refurbishment scheme has attracted a government subsidy that makes the scheme affordable to low-income people down to a household income of 1,000 Rand per month. On the other hand, to afford the new build schemes, members need between 1,200-3,500 Rand, the average being 2,800. This means that cooperative housing 'is not for the poor, but for the lower and middle income people, with a regular income'.<sup>63</sup> They are for low-income people, but not for the very poor. On the other hand, the stabilization of incomes that comes with decent inner city housing stabilizes low-income households financially, and 'often means that they have more money to share with other (even poorer) family members living in outlying areas'.<sup>64</sup>

How relevant is this model of cooperative housing to the poor? There are more than one billion people living in inadequate shelter conditions. In Africa more than a third of the population are badly housed. In 1996, governments adopted the 'Habitat Agenda' to tackle this problem, and the United Nations Centre for Human Settlements (Habitat) has acknowledged the important role of the cooperative movement in contributing to the solution, with considerable potential for extending the role of cooperatives in Eastern and Southern Africa.<sup>65</sup> However, it is likely that the permanent cooperative model, in which members have only limited individual equity, hold most of the equity in common, and pay a monthly charge for management, will have less impact in housing the very poor than more simple solutions. The house-building cooperative uses collective action to lower the cost of building homes to individual households who then become individual owners. Community land trusts can be a good way to secure collective tenure of land by the residents, while they continue to own and improve their own homes. Community provision of infrastructure such as clean water, roads and sanitation to informal settlements allows people to keep individual ownership and control of the dwelling, while collectively providing a decent environment.

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<sup>62</sup> See Pinsky (2001)

<sup>63</sup> Munkner (2001) Case study 3: Affordable housing in Johannesburg, p42

<sup>64</sup> Pinsky (2001) p28

<sup>65</sup> United Nations Centre for Human Settlements (2001)

## Case study 2: Dairy cooperatives in Bangladesh

Bangladesh is a country of small farmers, who are mostly living on or below the poverty line, and who are subject to the risk of flooding by the rivers and deltas that punctuate the country's low-lying but fertile flood plains. One way to increase incomes is to diversify into different farm products, especially those that can bring in a regular cash income. Dairying is ideal in these respects, because it provides a daily product that can find a ready market both for milk and other milk-derived products such as cheese and yoghurt. The initial investment in livestock is high and a system of veterinary services to maintain it is necessary. However, farm inputs are not expensive and usually consist of low-technology improvements to grassland that are helped by use of the waste products from the animals. There is the added advantage, crucial in a situation of absolute poverty, that the farmers' families can also consume the milk, thereby contributing to the health of their children.

Milk does have some disadvantages, though. It is perishable and difficult to transport. There needs to be some means of collecting small amounts from large numbers of farms daily, and distributing it effectively to urban areas, so distribution costs can be expensive. To overcome these disadvantages, private dealers often invest in dairies and convert part of the product to less perishable commodities that also have added value. This puts them in a position of monopoly from which they can exploit the farmers. When the distributors are able not just to fix prices but also to lend money at high rates of interest to see farmers through the bad times, or to pay for farm inputs, then the situation becomes desperate. Only cooperation by farmers in dairy cooperatives, or a system of state-owned dairies and marketing boards with guaranteed prices, can enable them to break out of the poverty trap.

In Bangladesh, shortly after independence in 1974 the government set up the Bangladesh Cooperative Milk Producers' Union, as part of its Cooperative Dairy Development Programme, with financial and technical help from UNDP and FAO, and grants in kind from the Danish aid agency, DANIDA. The long-term policy objective was to raise the subsidiary agricultural income of small and poor farmers in relatively remote rural areas, to strengthen support services for livestock development and to ensure the supply of hygienic milk to urban populations.<sup>66</sup> Known by its brand name 'Milk Vita', the cooperative provided services for milk production, collection, processing and distribution, and a comprehensive range of technical support services, from institutional development of cooperatives and credit schemes at community level to organising milk distribution in urban centres. In other words, Milk Vita broke the buyers'

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<sup>66</sup> FAO (2001)

monopoly, and substantially expanded milk production in North East Bangladesh. It became Bangladesh's leading supplier of fresh milk and dairy products such as butter and yoghurt to the capital city, Dhaka. While at both ends of the production chain – farming and urban milk distribution – it set up cooperatives, the company itself was run by civil servants accountable not to the farmers but to government. The dumping of imported powdered milk also affected the market adversely. Milk Vita was only just breaking even and, when provision for depreciation and loan interest was made, was actually making a loss and in constant need of subsidy.

In 1991 the government withdrew, leaving the Union to be run by an independent board of directors, elected mainly by the 390 village primary milk cooperative societies, and by a newly appointed group of professional managers. The transition to a genuine farmer-owned cooperative was a difficult one, but it was made easier by an ongoing commitment to management training and technical help with animal health, processing and marketing from the FAO, with continued funding from DANIDA. Soon Milk Vita was in profit. A move to a more commercial business approach helped, along with a higher throughput of milk and a steep decline in the import of powdered milk. From a modest start with a membership of only 4,300 very poor, landless households, it has become a 'successful commercial dairy enterprise'.<sup>67</sup> In 1998, 40,000 farmer members earned a total of US\$9.3m from sale of 30 million litres of milk.<sup>68</sup> In 2000, dividends paid to producers totalled US\$1.5m. Milk Vita is planning to expand into four new areas of Bangladesh where traditional small-scale milk production still prevails.

The evidence for poverty reduction is compelling. Farmers' earnings have increased ten-fold, lifting the household earnings of around 300,000 people (including family members) to well above the poverty line. The returns from farming are reliable and constant. Furthermore, in many households the income from milk production is managed by the women, and so has a direct impact on food security and nutrition. Savings generated from the milk sales help to cushion households against flooding, and 2,200 employment opportunities have been created in the urban areas from milk distribution (1,200 employees of the primary cooperatives, 300 city milkshaw pullers, and 700 employees of the five dairy plants and the head office). In addition, urban consumers benefit from safe, pasteurized milk products.<sup>69</sup>

However, there are people who are even poorer than the farmer-members of Milk Vita. Landless tribal people who were living on the equivalent of twenty US cents a day were not benefiting from the dairy

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<sup>67</sup> Op cit, 'Impact of the Project' section

<sup>68</sup> FAO (2002)

<sup>69</sup> See above report, Table 1

cooperative system. The Grameen Fisheries and Livestock Foundation, sister organization to the Grameen Bank, began by helping these landless people to gain an income through fish farming. Then, helped by a US\$3 million grant from the UNDP and technical assistance from the FAO, it began to train user groups and created veterinary and breeding services based on the Milk Vita model. Now almost 4,000 villagers have begun to earn an income from keeping cows. They are organized into 880 groups that received micro-credit loans to buy livestock.<sup>70</sup> This demonstrates that, with the right kind of technical support, even the poorest rural communities can benefit from agricultural cooperation.

### Commentary

The dairy cooperative model is quite easily replicable. In fact, the Bangladeshi experience was modelled on that of India, where dairy cooperatives began in 1946. In the 1970s they were given priority by government, and through to the late 1980s the World Bank lent over US\$500 million to develop the milk industry through cooperatives. Unlike many government-backed projects in other developing countries, this one aimed to promote viable cooperative businesses, owned and managed by the producers.<sup>71</sup> The results have been staggering - a national federation comprising 70,000 village milk cooperatives with nine million members. They produce thirteen million litres of milk per day, generating an additional annual income of US\$90 per family, and adding an estimated 250,000 off-farm jobs to the rural economy. As in Bangladesh, the availability of milk has improved the diet of urban dwellers; per capital milk consumption has almost doubled. As sixty per cent of the milk producers are landless, small or marginal farmers, again this kind of cooperative development has demonstrated that it does help in poverty reduction. Another example is Nepal, where after nearly 40 years of government-sponsored pseudo-cooperatives, a new Cooperative Act allowed a genuine cooperative movement to emerge. The number of dairy cooperatives increased from four in 1991 to 661 in 1995-6, with nine district unions and one central union.<sup>72</sup>

### Case study 3: Women's agro-tourism cooperatives in Greece

In most of the world, most of the farming is done by families, supplemented with some hired help but relying on tight-knit kinship networks to see them through all the uncertainties that farming brings: extremes of weather, attacks by insects and micro-organisms, fluctuating market prices, and so on. The family also enables them to call on reserves

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<sup>70</sup> FAO (2002b)

<sup>71</sup> World Bank (2001b) Tools and Practices 13, 'Poor people's organizations'

<sup>72</sup> Munkner and Shrestha (1999)

of labour at busy times of the year, using even the youngest children to bring in a crop or help with birthing of new animals. Often their combined efforts still cannot bring in an income that takes them above the poverty line. Where they are able to, the men have to take another job outside the farm. The women tend to supplement the family income by subsistence activities, converting raw materials into usable products, and sometimes, if they get the opportunity, doing paid work. Generally, the status of women is low, and they lack the autonomy that comes with being able to earn their own income. Low, too, is the status of landless peasants, who have to take seasonal work for the farmer, combined with use of whatever common land is still available and other sources of work, if they are available.

In many countries - not just developing but developed - a combination of market forces and public policies have led to the marginalization of rural areas, accelerating the migration of people to urban areas. The rapid and unchecked growth of megacities has led to a reappraisal of public policies, so that rural development has come back on to the agenda. However, while there are poor people in rural areas in both developed and developing countries, the issues are quite different. In developing countries the problem is one of absolute poverty; 60 per cent of people in the least developed countries are below the poverty line. In developed countries poverty is measured more relatively, the most used definition being less than 50 per cent of average per capita income. Rural poverty is localized and largely invisible. Farmers in the developed world are supported by government subsidies and import tariffs - though much less so than they used to be - and they are much better organized in farmer cooperatives than are farmers in developing countries. Yet real prices for agricultural produce have halved over the last 25 years, and farm incomes have become more unstable. They are coming to depend more and more on the extent to which farm income can be supplemented by off-farm and non-farming income. In Japan, for instance, farm income represented 60 per cent of household income in the 1950s, but only 16 per cent in 1992. In the United States, it has declined from 39 per cent in 1984 to 15 per cent in 1992.<sup>73</sup>

One way to increase rural incomes, then, is to promote rural diversification and pluri-activity within the rural family.<sup>74</sup> In Greece, in the 1980s, incorporating rural women into the production process, and reallocation of their traditional roles became a public policy goal. The means was to be cooperatives. In 1982 they were given the right to enter agricultural cooperatives as long as their spouses were members. In 1985 they were finally accepted on equal terms, but this still left them 'on the sidelines'.<sup>75</sup> The answer was to help them to set up their own cooperatives.

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<sup>73</sup> IFAP (1998)

<sup>74</sup> Giagou and Apostolopoulos (1996)

<sup>75</sup> Op cit, p144

What were needed were small-scale activities that built on their existing skills and required minimal capital. The General Secretariat for Equality and several other public agencies identified agro-tourism as the way forward, with provision of lodging for tourists, preparation of traditional meals, and the sale of local agricultural and handicraft products. The first cooperative was founded in Petra on Lesbos in 1984, followed by five others. They provided accommodation in farmhouses, though one cooperative ran a hostel and another a small hotel, and one had a restaurant. Membership ranged from 12 to 35 members. By 1996, researchers were reporting that their development was 'in a rather stagnant position', because the women were not professional enough, there was a lack of institutional support, and they lacked a central body to represent them. Behind these ostensible reasons was the 'top-down' origin of the projects, which meant that the capacity of the members had not been fully developed.

An in-depth study of the Petra cooperative has concluded that the women were interested mainly because of the prospect of a supplementary income. They received training in bookkeeping and financial management, and at first had plenty of support from state agencies. The cooperatives have helped to release them from total reliance on their spouses' incomes, and enabled them to turn use-values into exchange values, and enabled their villages to develop tourism more generally. The paradox is that there is still not a strong awareness of the cooperative identity. In Greece in the year 2000 there were 74 women's cooperatives registered, with over 1,000 members in total, and another seven cooperatives being planned. Only ten were agro-touristic, in the sense that they provided accommodation; they had a capacity of 660 beds.<sup>76</sup> The rest were mainly in small home industries and handicrafts. More generally, less than ten per cent of all rural households show women's pluri-activity, while the figure for men is thirty per cent. In a survey of nearly 1,500 women that asked how satisfied they were with their situation, only seven per cent said they were satisfied and forty per cent dissatisfied. There is still a great deal to be done to restore the gender balance in opportunities for paid work. The cooperatives have two main problems: marketing of products and financial issues. The activities are not very profitable when considering the time they take up, and it is hard to find customers for handicrafts and other farm products. The survey concludes that it is unlikely that the daughters of currently active women will follow the same path; more likely they will leave farming and even the rural area altogether.

One problem is that the initial impetus for development came at a time when the idea of environmentally friendly tourism was not well known. Indeed, in the 1980s the term 'eco-tourism' had not yet been invented. In Greece at that time rural tourism did not exist in any form. The

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<sup>76</sup> Gidarakou, Xenou, and Theofilidou (2000)

demand was not high enough; foreign tourists stayed on the beaches, while Greeks had their own links with rural areas based on kinship rather than market relationships. The involvement of women in off-farm business activities is now increasing throughout Europe, and agro-tourism is better established. Empirical research shows that women do want to work in cooperatives rather than establishing their own private businesses.<sup>77</sup> There are signs of renewed activity. In 1998, the women's cooperatives established their own Union. A few cooperatives have been started from the 'bottom up' by women themselves, and they are turning out to be much more successful. For instance, the Zagora cooperative in Pelion was started by women who were already familiar from an existing agricultural cooperative that had been running successfully since 1916. They had leadership qualities, knowledge of the cooperative principles, and familiarity with the way a cooperative worked. There are ninety members, producing high-quality processed farm products such as jam and marmalade. Working in shifts in a well-equipped workshop, they are paid by the hour for their labour. In the year 2000, they opened a small, traditional hotel. Like many other small productive cooperatives, they need help with marketing. It is hoped that the example of a successful, autonomous women's cooperative will inspire others and that a genuine process of replication of the cooperative form may finally begin.

### Commentary

This case study exposes another cross cutting economic inequality that needs to be taken into account: that between men and women in the same household. Poverty reduction strategies that assume that economic power and opportunity stops at the household unit ignore the real power differential between men and women. Most farmer cooperatives are owned and controlled by men. Whether the economic benefits that flow from cooperation reach the rest of the household is an empirical question. In cases where the women of the household do not have access to paid work outside the home and they do not have an independent income, it is necessary to foster women's cooperatives. This might be as a first stage in farm organization where there is none, or it might be in parallel to farmer cooperatives that already exist. Another strategy might be to try to open up existing cooperatives to women's influence. In Japan, the formation of han groups at a more local level than the formal cooperative, but linked to it, shows that this is possible. However, in Japan it is also the case that changes in land-holding patterns mean that more women are achieving the status of 'farmer' independently of men.

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<sup>77</sup> Iakovidou (2002)

#### **Case study 4: The development of tribal people's cooperatives in Orissa, India**

Tribal communities are among the world's poorest people. For instance, in the Indian state of Orissa, 22 per cent of the population, 32 million people, are tribal. They are the most disadvantaged of the 50 per cent of the rural population who live below the poverty line.<sup>78</sup> They are marginal farmers with an average of only one or two hectares of land per household, with mono-cropping of paddy fields, supplemented by the gathering of minor forest products such as sal leaves for making leaf cups, sabai grass for rope-making, and rearing of silkworms. They face crop failures caused by uncertain rainfall, ecological degradation of the forests, and deforestation. Most of the tribal people are illiterate, many are landless, and are exploited by outside moneylenders. They live in what an ILO report calls an 'evil circle of economic and social marginalization'.<sup>79</sup> Tribal women are particularly marginalized. A survey found that they work harder and over longer hours than men; alcoholism is a problem among men, and they are often absent from their daily work. There is an urgent need to improve women's living and working conditions. In addition, while the level of education is generally low, that of women and girls is particularly neglected. Furthermore, widespread indebtedness has 'weakened the economic backbone of the people'.<sup>80</sup>

The situation is made worse by the marginal position of these communities. Well-intended development projects have failed, because they lacked any participation by the villagers, and because non-tribal people who were better connected socially and politically took the benefits. The infrastructure remains poorly developed. Government agencies and non-governmental organizations have little contact with them. Ownership and tenure of public forests remains unclear. Yet the area is rich in materials providing opportunities for the growth of cottage industries, but because of the lack of skills, education and economic organization these opportunities have not been fully exploited. There are no cooperatives, except for one moribund society, and so the tribal people face the problem small farmers everywhere have faced; how to procure farm inputs at a reasonable cost, and how to market their produce at a fair price.

Pilot projects were set up by ILO INDISCO with its NGO partner, SSADRI, focusing on ten villages, with a total population of over 3,000 people. They used a tried and tested participatory approach that had been proved in an initial project in the village of Durgapur. Meetings were held in the villages to identify the people's needs, and comprehensive, fact-finding surveys were done on the socio-economic situation, the life-styles

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<sup>78</sup> ILO (2000) Orissa

<sup>79</sup> Op cit, p3

<sup>80</sup> Op cit, p4

of the villagers, and the existence of government and banking services. The focus was on income-generation for women. They began with a sal leaf/cup-making scheme, because the women had some experience of this and it needed only minimal working capital. Self-help groups (called mahila mandal) were formed in each village, organized by the women. They received training and started making leaf cups and plates for sale. This led on to electrification, setting up of work sheds, and installation of machines. Then training courses were held to extend into silkworm rearing, weaving and marketing. The project then moved on to longer-term investments such as a one-year typing course for young people, and training in tailoring for twenty women from four villages.

The key to sustainability was a revolving loan fund, which reached 46 per cent of the total population. This enabled individual rope-makers to buy in more raw materials and thus boost their output. Eventually, the increased income led to investment in other industries such as vegetable cultivation, the garment industry, and animal husbandry, and to individuals starting businesses such as grocery, cycle repair, and beekeeping. The extra income generated then led to spending on schooling and medicines. Another indication of sustainability was the involvement of the local banks; encouraged by the low default rate on loans from the revolving fund, they are now lending to villagers in the normal way.

The key to success was the training of village support workers who are also ethnically tribal, and their daily support of village-level institutions. The mahila mandals are quite formal women's groups that have their own by-laws and regulations and meet on a monthly basis. An apex cooperative, the Multi-purpose Labour Cooperative Society, was founded to provide them with support. Youth clubs were set up, attended by 20-30 young people in each village, and visited weekly by project staff. All of this shows a willingness on the part of the development NGO to commit staff time and resources over a long period; apart from the project director, there were three extension workers and nine animators. Using a consistent participatory approach, they also were able to pace themselves to the speed of change that the villagers themselves were able to cope with. Underlying the project was a commitment to listening to the views of the people, taking them seriously, and providing training and support for those projects that the people themselves felt able to undertake. Participatory self-evaluations enabled the villagers to take part in the measurement of progress and the identifying of impediments to action.

There is a role here for traditional development aid. The World Food Programme (WFP) funded a discrete project to bring nearly 200 acres of wasteland into sabai grass cultivation, and invested in the construction of multipurpose buildings in three villages. The ILO and WFP jointly funded the construction of a training building. This shows that there is nothing wrong with the provision of aid, provided it is meeting the priorities of the

people in need, and that the development of indigenous institutions is given first priority. One of the conclusions from the project is that 'self-help groups and cooperative structures provide a strong organizational basis for conducting income generation'.<sup>81</sup> In order to strengthen the organizational base, the project intensified its training of both staff and villagers. The topics included: the role of the mahila mandal and of the apex body, the multipurpose cooperative society; understanding of the by-laws and roles of office-bearers; how to apply for government grants; knowledge about the Gramaya banks; gender issues; and monitoring and evaluation. The aim of all this 'capacity building' is to help the village institutions to stand on their own, and to negotiate directly with government agencies. The involvement of women from the beginning has strengthened the institutions and enabled them to be transformed from passive labourers to active organisers. In consequence, they have gained respect and status. The links with government have enabled improvements in education and health care, and have led officials to recommend that the project be extended much more widely. In all ten villages, literacy centres have been established for both children and adults. Ninety health camps have been organised in association with local government public health centres, to teach basic health care issues.

The sal trees that grow in the forest and the sabai grass that grows on wasteland are the most basic local assets. Links with the local forest department led to enhanced awareness of the need for conservation. Young people formed groups to catch free riders who cut the valuable sal trees to sell to outsiders. The forest is no longer being burnt and new sal trees are growing. In fortnightly meetings between the mahila mandals, members of the apex cooperative, and the youth groups, discussions were held on a range of environmental issues such as how to stop soil erosion, water harvesting and conservation, forestation, and so on. But future sustainability will depend on the government granting clearer and firmer rights over the land and its natural products.

The phasing out of the project, while maintaining the institutions and activities that have been supported is admitted to be 'a major challenge'. Gradually withdrawing from the village level, encouraging people to run their own meetings, building links with local government, and capacity building through training, are all methods being used to enable this gradual disengagement. However, just as the participatory approach begins by pacing itself to the speed and direction of development identified by the people as appropriate, so the disengagement process also has to pace itself to the real capacities of the people who remain after the project has ended.

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<sup>81</sup> Op cit p23

## Commentary

There are several important lessons from this case study about how participatory development should be carried out. One of the lessons is about the importance of cooperatives in poverty reduction. The report concludes:

*Motivating people to organize themselves and their development action in cooperative societies has been an important participatory step in catalyzing further institution building*<sup>82</sup>

Cooperatives have proved their worth in other projects focused on tribal peoples. Another ILO-sponsored project, the INDISCO-Sadguru project working with tribal communities in Gujarat, used the same participatory approach but focusing on the need for water irrigation as well as on income-generating activities. Again the base-level institution was the women's group at village level. This led to the setting up of a secondary cooperative (known as the Women's Bank), and to dairy cooperatives. Altogether, eleven lift-irrigation cooperatives were formed, along with four milk cooperatives, the women's cooperative bank, and 24 women's and six youth groups.<sup>83</sup>

### Case study 5: A water cooperative in Bolivia

One of the Millennium Goals is to halve the number of people without access to safe drinking water. The number of people in the world with access increased from 77 per cent to 82 per cent during the 1990s<sup>84</sup>, but there is still much to be done. Rapid urbanization and the growth of megacities have dramatically increased the demand for water, but the supply has not kept pace. Many of the migrants from rural areas who live in shantytowns on the edge of cities do not have access to piped water, and suffer from water-borne diseases. Those who live in the established parts of town rely on water systems that have not been maintained and are leaking and unreliable.

There is an urgent need for large-scale investment in urban water supply. Public sector suppliers are subject to government-set tariffs that do not cover the full cost, and yet governments have been reluctant to raise the bills to consumers. Since the mid-1980s there has been a trend towards involving private, for-profit suppliers, the most important being lease and concession contracts promoted by two French water corporations, Vivendi and Lyonnaise des Eaux. Backed by the World Bank, these private sector

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<sup>82</sup> Op cit, p37

<sup>83</sup> ILO (2000b)

<sup>84</sup> United Nations (2002) a57/211

solutions are being introduced into several cities such as Buenos Aires, Mexico City, Abidjan, Accra, Manila and Djakarta. However, in Santa Cruz, Bolivia, a consumer cooperative alternative has been developed. Known as SAGUAPAC, the cooperative has been providing the city's water since 1979.

Santa Cruz is in the extreme east of Bolivia, distant from the highland capital city of La Paz. It has grown rapidly from 42,000 inhabitants in 1950 to its present size of over a million. The reasons for choosing a cooperative ownership and control structure are these. First, being neglected by central government, the city developed a strong regional identity. In 1951 a civic movement began that lobbied for payment of oil royalties due to the city. In 1960 they were successful, and used the royalties to form a public works committee. They could not rely on central government, nor on an extremely weak local government whose mayors were appointed by the centre. The private sector alternative was also unattractive, because it had not developed sufficiently to cope with the task. Visiting consultants from USAID had advocated a cooperative model, and citizens could draw on their own tradition of small-scale cooperative banking. In 1959 a cooperative law was passed, and cooperatives were set up for the telecommunications and electricity sectors. All of these factors provided a favourable environment for the water cooperative. In 1973 a publicly owned company was set up, its assets were transferred to a regional development corporation, and then in 1979 to SAGUAPAC, which has been the main supplier of water to the city ever since.

It is a true consumer cooperative. All 96,000 domestic customers are automatically members. They are divided into nine districts, which match the local government boundaries. Every two years they hold a district assembly, at which they elect one third of a six-member district council for a six-year term of office. The elections are supervised by the state regulatory agency for cooperatives. They also elect three delegates to a citywide general assembly, which has 36 representatives. This in its turn elects two members to a six-member Supervisory Board. This board oversees the work of an administrative board and appoints the auditors. The administrative board meets twice a month and elects officers who may serve a maximum of three two-year terms of office. The administrative board appoints the general manager.<sup>85</sup>

One problem is that the turnout for elections is very low; only 2-300 per district, a rate of only 2.5 per cent of water users. Also, the cooperative has failed to expand to cover the outer rings of the city, leading to accusations that it is uninterested in meeting the needs of the poorer shantytown dwellers. Instead, eight smaller water cooperatives have been formed in the outer ring, which provide water coverage for 350,000 people.

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<sup>85</sup> See Nickson (2000), on which this case study is based

However, SAGUAPAC's water charges are low, well within the affordability limit of five per cent of income for unskilled workers. The cost of buying a meter and having water installed is high, but low interest loans are available to finance this. When, in the early 1990s, a private sector company was brought in to do the billing, its policy of cutting off non-payers proved too inflexible, and the cooperative soon took this task back in house.

How does the cooperative compare with other forms of water delivery? A study undertaken by Birmingham University economists has found that it is one of the best-run water companies in Latin America, with a low level of water leakage, a high level of staff productivity and universal metering. It has a low average tariff and high collection efficiency. It is also efficient in its use of foreign loan finance for investment, out-performing two private Bolivian water utilities. Together with the smaller cooperatives, it provides 90 per cent coverage of the city's population.

Its cooperative structure is the main reason for its good performance. The cooperative shields managers from the kind of political interference that weakens municipal water companies. It allows for continuity in administration, and the electoral system works against corruption, especially as officers have to stand down for two years every six years.

## Commentary

Cooperatively owned utilities are common. In the United States they operate more than half the electricity lines, providing power to more than 25 million people in 46 states. In Argentina about 500 cooperatives distribute 19 per cent of the electricity, while 130 cooperatives provide telephone services. Electricity cooperatives are also important in Bolivia, Brazil and Chile. Water cooperatives are important in Argentina, Chile and Colombia as well as in Bolivia.<sup>86</sup> The SAGUAPAC model has been copied elsewhere in Bolivia, in the towns of Tarija (1988) and Trinidad (1991), and has proved to be efficient and effective. Yet the World Bank has never publicized this option, and continues to promote private providers for other cities in Latin America. In 1997, when the cooperative needed a central government guarantee for a World Bank loan of US\$25 million for its ongoing investment programme, the government refused on the grounds that new investment should be carried out by the private sector. The preferred option is a private for-profit company combined with state regulation.

My own recent work on the potential for mutualization of water companies in England and Wales examines the record of a water industry that has been privatized since the early 1990s, and concludes that, despite the existence of rigorous government regulation, the companies managed to

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<sup>86</sup> ILO (2000c) p41-3

make super-profits over ten years while doubling the cost of water to the consumers. They also failed to make all the environmental investments that they originally promised, and that were one of the main arguments for privatization. The problem is that government regulation has to deal with information asymmetry; the companies control the way in which costs, profits and investments are presented. This results in either the companies getting away with making higher profits and lower capital investments than expected, or the regulator setting too low a price. Either the customers or the shareholders lose. After a decade of easy regulation, the regulator imposed in 2000 stringent price controls, which led some water companies to explore the option of selling the assets back to a water mutual. The regulator turned down one proposal for mutualization, but agreed to the sale of Welsh water to a non-profit-distributing company. It is not a cooperative, and its governance structure is highly restrictive, but it shows that there is potential for a cooperative alternative to profit making water companies. My own prescription was for a multi-stakeholder non-profit company, which would have members drawn from residential users, commercial users and local government.<sup>87</sup> Wherever there are monopoly providers of essential public utilities, either a single or a multi-stakeholder cooperative model ought to be considered. It is the only alternative to an under-capitalized public sector, or an unstable mix of for-profit company and government regulation.

The cooperative option is still popular in rural areas, where the most efficient way to manage water is through decentralized, community-based organizations. For instance, in Côte d'Ivoire a national water supply programme has established community water groups that manage 13,500 water points. This has reduced breakdown rates from fifty per cent to eleven per cent, at one third of the previous cost.<sup>88</sup> In Albania, one consequence of the privatization of the agricultural sector was that there was no organization to take over the provision of water and irrigation services. In 1994 a World Bank financed project began, that led to the setting up of water users associations, owned and controlled by the farmers themselves. At first, these were organised at the village level, but then were reorganised to cover single water sources. By 1997 there were 187 associations. By 2001 there were 408 associations, grouped into 21 federations covering 200,000 families, one third of the entire population.

As governments privatize their water supplies, this model of mutual water provision in rural areas is spreading as an alternative to for-profit companies. In Australia, the assets of South West Irrigation were transferred in 1995 to a mutual, SWIMCO (South West Irrigation Management Cooperative), which has 2,300 farmer members. Its

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<sup>87</sup> Birchall (2002)

<sup>88</sup> World Bank (2001b) Tools and Practices 9, 'Community-driven development'

operations business was also transferred to a cooperative. Since then, four other mutuals have been formed on similar lines. They have proved to be ‘highly robust and efficient’, and now operate multi-million dollar sinking funds. The working structure is highly consumer-focused, and managers are encouraged by the mutual structure to work towards the long-term future, rather than short-term profit.<sup>89</sup>

### **Case study 6: Labour cooperatives in Finland**

Most countries in the developed world experienced a long period of steady growth from 1945 until the oil price shocks of the 1970s, when they began to experience mass unemployment for the first time since the 1930s. Then again, after a recovery during the early 1980s, in the first half of the 1990s they suffered from even higher unemployment. Traditional responses such as increasing public spending and taking more workers into the public sector no longer worked. Insurance-based unemployment benefits began to run out, and millions of people began for the first time to depend totally on tax-based income support. The gap between the top and bottom income deciles grew dramatically, and in some countries – notably the UK, which suffered badly from a decline in manufacturing during the 1980s – the income of the lowest band fell absolutely as well as relatively to the rest of society. Across Western Europe, social and economic exclusion became a serious public policy issue.

When the old solutions failed to work, cooperative options began to be tried. The most direct response was to set up worker cooperatives that took over failing firms, or parts of firms that were still viable, or found new ways of employing people who had been displaced by economic changes.<sup>90</sup> This was a difficult solution that, while it had a much better survival rate than conventional business start-ups, also required a great deal of specialist promotion and development. In some countries – notably the UK and Sweden – cooperative development agencies were set up, funded by local government, to encourage worker cooperation as an alternative way of generating and defending jobs.

Finland only began to experience mass unemployment during the early 1990s. The impact of economic deregulation and globalization, coupled with the disruption caused by the break up of Finland’s near neighbour, the Soviet Union, meant that the previously successful national labour market policy could no longer cope. Unemployment, which had been around three per cent in the late 1980s, rose to over twenty per cent, and between 100,000 and 200,000 people out of a population of five million were becoming long-term unemployed.<sup>91</sup>

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<sup>89</sup> Information received from Jenni Mattila, and quoted from Birchall (2002)

<sup>90</sup> Paton (ed.) (1989)

<sup>91</sup> Pattiniemi (1999)

The Finnish welfare state, like that of the other Scandinavian countries, had been very comprehensive, and the role of the mutual and voluntary sectors had been restricted to innovating at the margins. The dominant paradigm has been one in which such innovation is seen as a supplement to the public sector and gradually incorporated into it, and so it took a while before self-help solutions could be accepted. The mutual response to the crisis of unemployment has taken the form of a new wave of worker cooperatives; 400 have been formed since 1987. One hundred and seventy of these are traditional worker-owned enterprises, but 1,230 are labour cooperatives.<sup>92</sup> These are a simpler solution to the problem of unemployment, consisting of a cooperative that finds temporary work for its members with existing companies or households, renting out its members' labour by the hour or day just as a private employment agency would do. They are usually initiated by local associations of the unemployed, which have been funded through the state slot machine association that has a legal monopoly on gambling. Their purposes are to find jobs for their members, to improve their income level, to sustain work skills and to maintain their social, physical and mental condition. They provide training, low-price meals, leisure opportunities and discussion groups that offer mutual support. In this they are similar to the job clubs that operate in the UK and other countries, but they have gone further in setting up their own labour cooperatives to find work for their members.

The work that the cooperatives find is concentrated mainly in construction and office work, but also in computer services, accounting, cleaning, social services, maintenance work, and so on. They have been growing rapidly: in 1996 they provided employment opportunities to around 4,500 people. By 2001 they were finding full-time employment for 3,300 people, and part-time work for 4,400. They have the advantage of being able to offer a relatively simple service, which does not need large capital investment or special skills. A study found in 1995 that 43 per cent of members were women, and that ten labour cooperatives have been established by ethnic minorities.<sup>93</sup> The members benefit from staying in the job market, keeping up their skills and contacts for when a permanent job becomes available. They also benefit from the social protection of having an ethical employer that provides trade union approved wage levels. The customers benefit from having labour supplied where and when they need it, and without taking on new employees.

Whether they are worker or consumer cooperatives is an interesting question. From one viewpoint, their members are consumers or users of the services provided, but from another they are workers, hired by the cooperative on contract. Some of the cooperatives are multi-stakeholding,

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<sup>92</sup> These figures have been reached by updating Pattiniemi, op cit (1999), with figures from Pattiniemi et al, op cit (2001).

<sup>93</sup> Op cit, p135

offering membership to local authorities, trade union branches and local banks as well as unemployed people; these might be classified more as community businesses than cooperatives. Some regional public labour agencies have taken a similar approach, but they do not offer the social supports, mutual aid and flexibility in training that cooperatives provide. However, there are problems. In many cases the cooperatives are trading in only one or two sectors, and this can mean that some members do not benefit. There is also, by the nature of the business, a tendency for capable people to gain permanent employment and so be lost to the cooperative. In some cases, cooperatives have closed as a result of losing their leaders. They are dependent on grants from the labour ministry that provide eighty per cent of the setting up costs. This pays for offices, equipment and around six months wages for a cooperative organiser. They have received support from the Institute for Cooperative Studies in Helsinki, from nine regional cooperative development agencies, and from the cooperative central union, Finncoop Pellervo. The crisis in the labour market has abated recently; by 1999 the unemployment rate had dropped to nine per cent. Support for labour cooperatives is, however, now part of public policy.

### Commentary

These cooperatives are developing in the same direction as the highly successful social cooperatives of Italy, beginning to provide paid work for people with disabilities, and mental health problems. It is in Italy that the idea of labour cooperatives first started. Here, in the late nineteenth century, agricultural depressions led to large numbers of people being laid off, and they turned to offering their labour. With preferential treatment in the awarding of public works contracts, the movement grew and by 1906 there were 454 labour cooperatives compared to only 178 other types of worker cooperatives.<sup>94</sup> This sector is still strong: in the late 1980s there were around 12,000 worker cooperatives, employing half a million people and, reflecting their origins in labour cooperatives, strongest in the building trade.

But how applicable is the idea to developing countries? Here it is more important still, given the large numbers of unemployed landless people and the need for labour-intensive public works to employ them. In India, around 37 per cent of the entire working population come into this category of unorganized labour, many of them living below the poverty line. Labour cooperatives are the main way in which they can become organized, mainly in the construction and forestry industries. There are nearly 30,000 labour contract and construction cooperatives, of which 12.3 per cent are made up of tribal people. There are 92 district level federations, nine state federations and one apex national federation. A National

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<sup>94</sup> See Birchall (1997) p22-3

Advisory Council has recommended that all unskilled work be reserved for them, they should have a ten per cent price preference over the lowest tenders, and they should have exemption from various taxes.<sup>95</sup> Of the 228 million cooperative members in India, 1.6 million belong to labour cooperatives. Clearly, the potential for employment is vast, but cooperatives need to be strengthened economically, competition with the private sector needs to be made fairer, and the position of women workers needs to be improved.

### **Case study 7 – The Uganda Shoe-shiners Industrial Cooperative Society**

Most people need access to formal, regulated, waged employment in which their labour and skills are recognized and rewarded, and they are allowed to negotiate collectively with their employers through trade unions. As the ILO's programme on decent work reminds us, this is something which many people are still hoping for and will never achieve. Among urban dwellers, a minority of people in developed countries, and a majority of people in many developing countries have to rely on unregulated, unprotected work in what people call the 'informal economy' (or previously the 'informal sector').<sup>96</sup> This comes in two basic forms: low-waged, intermittent employment with small, local employers, and the kind of self-employment that is really disguised underemployment. In both cases, the workers tend to remain poor and have a precarious hold on the market. Either they are at the exploited end of a long production chain in the global economy, or they are reliant on local markets. Yet they manage to use the strengths they do have: their own labour, the family unit, the technology that is available, and the skills they acquire outside the formal schooling system.

It is difficult for trade unions to organise these kinds of workers. Those who have an employer may work casually, or intermittently, in a firm that is unrecognized and precarious. In India and Latin America union organizations have been built, mainly of women workers and particularly in the home-working and domestic service sectors. Those who are self-employed work in thousands of small units and do not have an employer to negotiate with. In the developed countries shared service cooperatives have proved successful, particularly among taxi drivers and small retailers.<sup>97</sup> A good example of this kind of organization among poor people is the Uganda Shoe-shiners cooperative. In 1975, five people working as shoe-shiners in the capital, Kampala, decided to form the Kampala Shoe-shiners Cooperative Savings and Credit Society Ltd. Their aim was to create jobs

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<sup>95</sup> Prasad (2001)

<sup>96</sup> For a discussion of this concept see Birchall (2001)

<sup>97</sup> See Schwettmann (2001)

and defend their interests against government authorities. At that time there was a military government, and cooperatives were registered under an Act that gave government direct control over them. In order to operate freely, the cooperative remained unofficial until 1989, when they decided to register formally. There were several reasons for this. There was a new political and economic climate favourable to civil society organizations, informality had been looked upon by suspicion by the wider population as an excuse for dishonesty, and there was an immediate need to represent informal traders against the Kampala City Council, which at that time was trying to restrict their activities. In 1999 the cooperative changed its name to the Uganda Shoe-shiners Industrial Cooperative Society Ltd. It now has 370 members divided into two categories: 124 full members and 246 'part-timers' who pay a reduced membership share and do not participate in every aspect of the cooperative's activities but may use its name.<sup>98</sup>

The early history of the cooperative cannot easily be told, because its informal nature means that no records are available. What can be said is that, given the political instability and lack of support for civil society institutions, this informality was a strength rather than a weakness. Formalization led, in 1994, to the creation of a new organizational structure, with an executive committee responsible to a general assembly, supervising three sub-committees, and regulated by the 1991 Cooperatives Act. It exercised the 'cooperation between cooperatives' principle by investing in the Uganda Cooperative Alliance and the Uganda Cooperative Savings and Credit Union, thereby gaining access for its members to cooperative training programmes. The cooperative has tried hard to expand its range of business activities and member services. As well as providing a savings and credit service, it attempted to market shoe polish and brushes, and to rent kits, and to invest in new activities such as public transport and real estate. As one commentator sums up, 'the majority of these projects failed due to lack of financial resources'.<sup>99</sup> Profitability is still a major challenge, but it has improved the quality of life of its members, and has created jobs for a large number of young people. Since 1996 women have become members, but they only represent five per cent of current membership.

## Commentary

It is hard to avoid the conclusion that cooperatives such as this need help - preferably from other, more prosperous cooperatives, but also from government and NGOs, if they are to diversify and make serious inroads into the problem of poverty and economic marginalization faced by their members. Cooperatives of very poor people will remain just that unless

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<sup>98</sup> See Kazooru (2002)

<sup>99</sup> Op cit, p55

they are connected to wider markets, given opportunities for education and training, and the kinds of supports that all small businesses need in order to grow. Looking back on the history of cooperative development, it is ironic that for a long time official cooperatives had all the support governments and the international aid community could find, while informal cooperatives such as this one remained unrecognized and unaided.

Is this cooperative a model for how workers should be organized in the informal economy? It is part of the answer, but there is also a need for development help to such cooperatives to strengthen their employment potential and to diversify their products. Shoe shining is one of a number of marginal, street trading activities where a cooperative could be used as a platform for skills training and adult education that would expand job opportunities for its members. There is also a need for networks of such cooperatives to be created, so that they can strengthen their voice with local government and increase their control over supply and marketing of their products and services. There is a need for a higher-level trade union-type organization such as SEWA, which in India has proved the value of recruiting women workers from several sectors and then identifying opportunities for them to increase their incomes through cooperative businesses. The SEWA model of trade union organizing has been replicated in South Africa and Colombia, as well as several other countries.<sup>100</sup>

### **Case study 8 - Hill community forestry user groups in Nepal**

In many countries, local communities used to manage common land in a sustainable manner, relying on agreements that had the force of tradition behind them. The development of modern states, and the privatization of land on the European model of individual ownership, weakened these traditional forms so that now there are serious threats from over-use of common lands and conflicts over who has the right to them.

In Nepal, the problem was recognized by the government when, in 1978, it passed legislation that handed over much of the public forest and hilly areas to local communities. It was an important step. Most of the people in Nepal are small farmers, and land ownership is uneven, with the bottom sixty per cent owning only twenty per cent of the land. Over ten per cent of households are landless, which makes off-farm activities very important.<sup>101</sup> It was intended that local management would be achieved through village-level organizations, but these proved to be ill suited and 'seldom functioned as representative discussion and decision making bodies'.<sup>102</sup> The system was found to work better when control of the forests was given to user groups rather than whole communities. These groups

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<sup>100</sup> See Birchall (2001a) Ch.5 'Trade unions in the informal sector'

<sup>101</sup> Munkner and Shrestha (1999)

<sup>102</sup> World Bank (2001b) Tools and Practices 13, 'Poor people's organizations', p205

successfully established rules for use of the 'commons' and enforced them through the use of forest watchers and social sanctions. Under Nepal's 1993 Forest Act, their success was recognized and more authority was devolved to them. Ownership of the land remains with the state, but the user groups own the trees. They manage the resource, set prices for the produce, and determine how the surplus will be spent. By 1997 there were 6,000 groups managing 450,000 hectares of land, with another 6,000 groups waiting to be registered.

The groups are not called cooperatives. During the post-war period, the Nepalese government made all the usual mistakes in forming cooperatives that were government controlled, set up quickly in response to five year economic plans, over-reliant on subsidies, subject to political manipulation, and so on. The term 'cooperative' got a bad name, because farmers were forced to be members and had a proportion of their incomes taken in forced savings, and the cooperatives were dominated by 'rich and powerful people'.<sup>103</sup> With the restoration of democracy in 1990 and a new cooperatives act that recognises the autonomy of cooperatives, real cooperatives are emerging. Informal groups are registering, existing agricultural cooperatives are being transformed – either going bankrupt or becoming viable businesses. The dairy cooperative and farm supplies sectors are growing rapidly, but a new image for the cooperative option 'has still to be created'.

## Commentary

Local self-help groups have also proved their worth in relation to forest management in other countries. We have already noted the way in which tribal self-help groups have taken responsibility for forest management in Orissa. In another Indian state, Gujarat, there was a major problem in managing forests; during the 1980s an average of 18,000 offences were recorded annually, and twenty forestry officials were killed in confrontations with local communities.<sup>104</sup> An experiment in joint management led to the creation of forest protection committees and profit sharing (25 per cent of timber returns went to community groups). As in the Orissa case, local people took responsibility for patrolling the forests, and productivity of land increased, generating new sources of income for poor people. Participatory development, environmental sustainability and cooperatives go together well.

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<sup>103</sup> Munkner and Shrestha (1999) p106

<sup>104</sup> World Bank (2001b) Tools and Practices 9, 'Community-driven development'

## Case study 9 – Consumer cooperatives in Russia

Consumer cooperatives are one of the oldest types of cooperation, being built out of a simple desire among low-income people to club together to lower the cost of living. As we have noted in Chapter One, they began in the early stage of the industrial revolution in Britain around the end of the eighteenth century, becoming established to meet the needs of a newly urbanized working class at a time when the private for-profit retail sector was not developed. They grew rapidly throughout Europe everywhere that similar conditions made it necessary for working people to organize their own distribution and consumption of food, clothing, fuel and other basic goods. While they are still increasing their market share in some countries (notably Japan, Italy, Spain, Greece and Switzerland), they have faced intense competition from multiple retailers and in France, Austria, Belgium and the Netherlands whole cooperative sectors have gone out of business.<sup>105</sup> In the former communist countries parastatal cooperatives used to provide much of the distribution network, but in the transition to market societies many have been privatized or have failed. In Poland, between 1987 and 1991 retail turnover declined to a third of what it had been, and membership was cut by half.<sup>106</sup> In other countries, intervention by the ICA and other cooperative organizations helped local cooperatives avoid dissolution and create real member shareholders; by the mid 1990s consumer cooperatives still had around 20-30 per cent of market share in most central and eastern European countries.<sup>107</sup> They are particularly strong in rural areas.

In Russia, during the transition to a market economy the Klinski and Stupinski cooperatives lost a large part of their membership and faced serious financial problems.<sup>108</sup> Yet, despite increasing competition and the effects of the black market, they have succeeded in re-launching their businesses. The Klinski district includes four towns and 260 villages north of Moscow, while Stupinski is south of Moscow, and includes three towns and 210 villages. In both areas the main industries are food production and farming. Both societies appear to have been well run during the communist period, and were able to institute an anti-crisis strategy during the transition period that ensured their survival.

The Klinski society elected new people as directors, including some young, professionally trained cooperative leaders. They took the idea of cooperation seriously. A law on consumer cooperatives was only passed in 2000, but they did not wait but adopted new by-laws that were based on the

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<sup>105</sup> ILO (2001) p39-40

<sup>106</sup> Kowalak (1993)

<sup>107</sup> Birchall (1997)

<sup>108</sup> Altshul (2002)

international cooperative values and principles. A member re-registration campaign was started, aimed at 'creating a stable and loyal membership on a voluntary basis'.<sup>109</sup> Four new types of store chains were created, including a discount food chain, a household goods chain, department stores, and fresh food stores. The procurement process for agricultural products was made more efficient, and a capital construction programme begun. By 1999, the cooperative had a gross profit of eleven per cent. In four years between 1995 and 1999 its sales increased by 153 per cent, and it increased its share of retailing in the locality to eighteen per cent. A total of 676 new jobs were created, with higher than average salaries being paid. Annual dividends on purchases are paid to members, with additional dividends paid to longstanding members, and a social dividend is paid in the form of donations to local schools and hospitals.

The Stupinski society was revitalised in similar ways. It put more emphasis on the development of its retail network, with a shopping centre and several mobile shops serving small villages. Like the Klinski society, it used member deposits as a way of raising capital, but it also set up a development fund to raise substantial amounts of capital. It also emphasized the need to combine good, professional management with democratic governance. Seven of its top ten managers are women. Between 1996 and 2000 its profitability increased to ten per cent, its sales increased by 173 per cent, and its market share reached twenty per cent. A total of 130 new jobs have been created.

## Commentary

In 1935, Stalin banned cooperatives from operating in urban areas, and so these two societies began from a rural base. They are now returning to the urban areas where most of the population live. While accurate statistics on their effects in reducing poverty are not available, one can fairly confidently assume that they have a strong and growing impact on the cost of living and consumer choice in their areas.

Similar reconstructions are going on in other countries. For instance, Altshul also reports on Armenia, where only a few consumer cooperatives have survived. In fact, they are the only form of cooperatives to have survived the government's liquidation of cooperatives in the early 1990s. There are forty societies affiliated to a central union, with a membership of over half a million people. Here, a project carried out by the ICA has concentrated on strengthening the economic base of five cooperatives. Their members are rural small farmers, who are unable to market their produce because the agricultural cooperatives have been closed down. The consumer cooperatives have stepped into this gap in the market, and have assisted small farmers to market their produce, and gone into horticultural

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<sup>109</sup> Op cit, p22

and agricultural production themselves. They have also begun to move up the processing chain to make fruit and vegetable preserves, carpets and leather, to open bakeries and in the department stores begin to make jewellery. They own agricultural markets, and are creating a 'retail network dedicated to the poorest strata of the population'.<sup>110</sup>

These cases show that the consumer cooperative model is still highly relevant for poverty reduction in the ex-communist countries. How relevant is it for the developing world? There are strong cooperatives in Latin America: at the end of the 1980s Argentina, Chile and Uruguay had between them a total of 685 consumer cooperatives with a membership of around 2.3 million.<sup>111</sup> In India there are more than 25,000 cooperatives, with around 700 central wholesale warehouses, and in Sri Lanka they cover almost the entire population. In other countries they are struggling, and rely on government patronage to keep them going. The problem is that retailing is not an easy trade to manage, and it requires a wide variety of management skills, from book keeping to marketing and personnel management. It thrives best in rural areas where it does not face much competition from private traders.

### Case study 10 – The ACOPAM programme in the Sahel

Supposing we were able to initiate a long-term programme of technical cooperation among poor people, one that combines participatory development with relatively large scale. Suppose we were then able to monitor the results. It would be an excellent way of being able to test out the belief that 'communities hold the key to their own development', that sustainable development requires the active involvement of local people at all stages of a programme.<sup>112</sup> This opportunity has been provided in the Sahel region of Africa. Between 1978 and 2000, the ILO ran a programme with the acronym ACOPAM, which covered six countries, including Burkina Faso, Cape Verde, Mali, Mauritania, Niger and Senegal. Funded by the Government of Norway, it cost US\$50 million, and benefited directly more than 85,000 people in rural areas, who are members of over 2,000 grassroots organizations (including cooperatives and other self-help groups).

The problem was that in the 1970s the countries of the Sahel were suffering from persistent drought, a shrinking of productive land, and death from malnutrition. The only alternative seemed to be migration to the south and into urban areas. As the ILO report on ACOPAM described it:

*The precarious balance between nomadic livestock breeders and settled farmers broke down, and age-old customs and*

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<sup>110</sup> Altshul (2002) p10

<sup>111</sup> ILO (2000c)

<sup>112</sup> ILO (2002c) p5\*

*know-how were called into question. The authorities, due to a lack of resources and sometimes also political will were unable to take effective action* <sup>113</sup>

Faced with famine, international aid agencies could have just poured temporary food aid into the region. Instead, the ACOPAM programme aimed to strengthen the capacity of rural communities to better manage their natural resources, secure increased access to basic services such as credit, education, and primary health care, and to improve the storage, preservation and marketing of their food products. The guiding principles were to act in partnership with the local people, to make a joint diagnosis of the situation, to plan activities and evaluations in a participatory way, and then to plan for withdrawal once the rural population were able to take full control.

The activities have included: self-managed cotton markets, that now sell eighty per cent of Sahelian cotton output; more than 300 village grain banks, with sale of surpluses at non-speculative prices to areas where people have had a poor harvest; savings and credit schemes involving 7,000 members of women's associations; village irrigation schemes covering more than 3,000 hectares and benefiting more than 25,000 farmers; and village resource management committees set up to deal with land degradation. Conservation and income-generation go together. For instance, planting rows of eucalyptus trees around crop-growing areas helps keep moisture in the soil, while wood production gives the farmers added income. More than half a million trees have been planted throughout the region. Another way of looking at the programme is in terms of job creation; more than 50,000 self-employment opportunities have been created, with spin-offs into local economies for specialists such as vets, craftspeople, and shopkeepers. The projects have extended upwards from these core activities into new regional and national level representative bodies. Mutual health insurance schemes have been built on to them that provide primary health care and manage village pharmacies.

The aim of reducing poverty has been achieved. The evaluation reports confirm that the standard of living has improved, agricultural output increased, food security has been enhanced, and natural resources are better managed. In the development literature it is usual to assume that the background to poverty reduction strategies has to be favourable. However, here the objective of reducing poverty has been attained despite a backdrop of unfavourable conditions, such as irregular rainfall, high population growth, increasing unemployment, deteriorating social services and in some cases lack of democracy. The key to success is the targeting of help to women, who have increased their earnings (for example through vegetable growing) and used them to improve education and health care for their

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<sup>113</sup> Op cit

children. ACOPAM has recognized their 'pivotal role' in rural societies, and the need to enhance their status through economic development. Savings and credit, training courses, promotion of women's organizations, are all part of the process. Also important is a process of consciousness raising, not only among women but also among the entire community; men, women, young people, the elderly, the disabled and other underprivileged groups.

Another key element is the quality and consistency of the training offered. In order for people to gain the confidence to assess their own situation and do something about it, they need skills and knowledge. These are provided through an 'active literacy' method, in which the extension workers facilitate learning based on the everyday lives of the participants. After reading and writing come more specialist skills such as book keeping and management. Technical training is also based on topics selected according to the expressed needs of the participants.

Donor support was phased out over a 12-month period between 1999 and 2000 but national networks that have the capacity and the motivation to continue the work, now take the work forward.<sup>114</sup> National and regional federations have been set up by primary producer organizations: grain bank unions, women's associations, and mutual societies. Eight national networks of development partners have been set up to continue the work of ACOPAM, and these have joined together in one African Network of Local Development Organizations. New, locally owned NGOs have been set up, who have the skills needed in training and cooperative organization, and who have begun to contract directly with aid agencies. All of these are part of an emerging civil society that forms a natural partnership with government but also challenges governments to fulfil their responsibilities and encourage grassroots initiatives. Before ACOPAM withdrew, it helped to draw up new cooperative laws in several countries, in order to create a favourable environment for these associations.

## Commentary

It is too early to tell if the indigenous networks and NGOs that have replaced ACOPAM will preserve and consolidate the gains made in the Sahel. Many problems have still to be faced. First, there are general problems, such as the effects of structural adjustment programmes, social disputes, ethnic conflicts, high adult illiteracy rates especially among women, rural to urban migration and subsequent increase in unemployment. Second, there are legal and institutional problems such as reluctance of banks to lend to local associations, the scarcity of support services for agriculture, lack of clarity over the legal status of land, and the need for clear legislation on cooperatives. Third, there are problems

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<sup>114</sup> op cit, ch.5

concerning the local communities, of conservatism and aversion to change. There is uncertainty over whether the programme has withdrawn too soon, and over whether the gains it has made will be eroded. They are certainly quite fragile. International support will still be needed and there is uncertainty over whether it will be directed sympathetically and coherently. Much depends on the capacity of states to develop and deliver rural policies that strengthen local associations and encourage self-reliance.

### **Case study 11 – Cooperative Care in Wisconsin**

In developed countries, there is a growing problem of how to care for elderly people. There is also a growing awareness that the burden of care of the elderly rests unfairly on women, both those who care for relatives and those who make a living as care workers. These workers suffer low wages and poor conditions, and there is a high turnover of staff. They may not be poor by the United Nations standard, but they are among the lowest paid workers in developed countries.

Cooperative Care is a worker-owned cooperative providing care services to elderly and disabled people in their own homes. Its mission is to provide high quality care while providing fair wages and benefits to those providing the care. Based in Waushara County in rural Wisconsin, it is the first such cooperative in the American Midwest. There is plenty of need for its services. Waushara County has more than 4,000 people over 65, and with over 92,000 seniors in the county region. Nearly a third of these will eventually need help with care. Before the founding of the cooperative, low-income elderly and disabled people received funding by the local authority department of human services, but the caregivers were paid through a fiscal intermediary, and were considered to be domestic help hired by the client. The Department received state funding to set up a worker cooperative, and contracted with it to provide services. The cooperative has eighty members, and sustains independent living for 114 older people.<sup>115</sup> Ninety-two per cent of its business comes from the county, the rest from private payments.

In the early stages of the cooperative, members were surveyed to find out what they considered a fair wage, what benefits they needed, their preferred working hours, training needs and so on. Their responses became part of the business plan. Benefits include increased pay, workers compensation, time and a half pay for holidays, ten days paid vacation, travel costs and health insurance. This last benefit is particularly valued; 31 per cent of staff had no health insurance. They are paid between US\$7.50 and US\$9.75 per hour, against a national median of US\$7.58. In 2001, a surplus of US\$41,488 was made against a projected surplus of US\$30,000. After paying part of their business loan and setting aside some funds for

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<sup>115</sup> Cooperative Care (2002)

reserves, the cooperative was able to pay a patronage refund averaging US\$440, based on the number of hours worked.

The cooperative provides training to certified nursing assistant level, with classes held outside working hours and with training provided by the cooperative's own registered nurse. Eight workers have been trained so far; the qualification means an increase in the hourly rate of US\$2.25. Turnover of staff is almost nil, and the stable workforce means continuity of care for clients. The board of directors consists of five certified nursing assistants, who are learning leadership skills. The members still work alone, but are less isolated because they come together for training, meetings and social events. Members were asked to contribute US\$40 in membership dues; some were so poor they had to pay this in two instalments. The resulting sum of US\$17,500 will form an accumulating equity account that will be fully funded within five years of a member retiring or leaving the cooperative. An independent study of member satisfaction has found that members feel 'pride in ownership and connections with one another'. Two-thirds of members attended the first annual meeting.

The contract with the county costs forty per cent more than the previous system, but the cooperative makes savings on administrative overheads and provides trained, supported and insured workers. Recently, a state budget crisis resulted in the pay rate being cut by fifty cents; there is a direct conflict between making the budget go further on behalf of clients and paying decent wages. The amount of business that can be generated depends on the ability of local authorities to fund it; there is a waiting list of clients.

## Commentary

The idea that care workers should control their own conditions of work through a cooperative is well established. Cooperative Care was inspired by Cooperative Home Care Associates, founded in the Bronx, New York in 1985. The promoters of the new cooperative are certain that it is replicable, and that a system exists for providing support through the cooperative specialists who work from Department of Agriculture Rural Development offices. Already it is winning awards.

Care cooperatives are also being developed in other countries. There are around forty care cooperatives in the UK, mainly providing home care but with one large consumer cooperative (West Midlands) running a group of residential homes. The sector is expanding rapidly, with local authorities helping to set up cooperatives as alternatives to public sector provision.<sup>116</sup> In Japan, the existing consumer and worker cooperative sectors provide care for the elderly. Over 30,000 care helpers have been trained, and thirty agricultural cooperatives have signed partnership agreements with local

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<sup>116</sup> Taylor et al (2002)

authority social care departments. Also, a new movement of worker cooperatives has arisen, providing employment for elderly people. In Canada, Sweden and the United States cooperatives providing day care for children are important. However, it is in Italy that we find the most established cooperative care sector. Around 2,000 health and social care cooperatives attract about thirteen per cent of the total budget for social welfare. They employ around 40,000 people, and mainly take the worker cooperative form.<sup>117</sup>

The problem that public authorities face in contracting out care is that it is difficult to regulate care providers. As a consumption good, personal care requires a high level of trust between client and provider; the service is long-term but not easily visible and the costs of changing to another provider are high. The advantages of cooperative providers are clear. Unlike for-profit providers, they have social values, invest surpluses rather than taking out profits, and have a long-term commitment to a locality. Unlike public providers, they are able to raise capital in the market and have an entrepreneurial approach. They are able to enlist key stakeholders as members, being either worker owned or multi-stakeholding.

The main problem for care cooperatives is that they are heavily dependent on public or insurance funding so that clients can afford to pay for their care. When there is a crisis in funding, the cooperative suffers. While Cooperative Care has so far had to take a cut in the hourly wage rate, four cooperatives modelled on the New York cooperative went bankrupt when Medicare reimbursement rates for skilled nursing care were reduced. In the UK, consumer cooperatives would like to invest much more in care homes, but many private businesses are getting out of this sector because of uncertainty over funding.

## Conclusion

These case studies have shown just how widely the cooperative form can be applied, and how it can succeed in helping the poorest and most vulnerable people to become organized. They show that, provided the method of development is participatory, the cooperative form is replicable. Where there are alternative, for-profit alternatives the cases demonstrate that the cooperative form is – for the aim of poverty reduction – superior. Where there are no alternatives, it shows that even a relatively weak form of cooperation is better than nothing.

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<sup>117</sup> ILO (2000c)

## Conclusion: The potential of cooperatives for poverty reduction

# 4

In this final chapter we explore the relationship between cooperative development and participatory development. Then we identify the essential ingredients for success in promoting cooperatives. Some important questions are asked about how the cooperative development process is carried out so as to maximise the benefits to poor people and women. Recommendations are made about how the profile of cooperatives can be raised in international development and about the directions in which cooperative promotion should go.

### 4.1. Cooperative development and participatory development

What is the relationship between cooperatives and the wider aim of participatory, sustainable development for poverty reduction? It is twenty years now since the main features of the participatory development process were first identified and put into practice.<sup>118</sup> The subjects must be integrated into the planning process from the start. Intervention should begin at the village or neighbourhood level, and it should allow for flexibility, and adjustments in the planning. It should concentrate on pilot projects that, through the action-research process can be made replicable (a key product of successful pilot projects is their ability to persuade decision makers to establish conducive policy frameworks, thus enhancing the chances for replication). It should be cost-effective yet holistic: to improve one of the conditions of poverty and not another will not be sustainable in the long run. It should focus on all the people concerned, in particular on the women (who do up to eighty per cent of the work in rural communities). Its major features are that there is an organic growth of activities, participation of local people in problem analysis and identification of activities, a focus on the poor and on women, institution building at grass roots level, all based around an important economic activity. A replicable method of intervention has to be developed, through ongoing monitoring and self-evaluation. Front line workers with general

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<sup>118</sup> See Verhagen (1984)

community development skills should carry out the work, supervised by a project director and able to draw on specialist skills when needed. Human resource development is the key; local training and education, leadership training and subject training for local leaders, with a gradual move from general education programmes for groups to specialized ones for leaders. In financial issues, saving should be encouraged before money is lent. The offer of cheap credit from outside agencies should be refused, because it undermines thrift. Projects need to have a flexible budget and long term commitment to the people they are working with.

However, a key difficulty in sustainable development is in the replication of pilot projects. The elusive goal is to create a self-propelling movement that does not demand ever more resources from outside. Here, the cooperative form of organization has definite advantages, but only if it is promoted in conformity with cooperative principles. This should not be too difficult, because cooperative principles are themselves principles worked out over two hundred years by people who were committed to what we now call sustainable development. The first, most basic principle is that people should be able to decide what form of self-help organization they want. There is a choice between types, ranging from informal self-help groups to formal cooperatives. There is a process of organization building by which people may wish to create a 'pre-cooperative' form with a view to formalizing it later. There is a choice between a single purpose organization that delivers one product or service, and a multi-purpose organization that meets a wide range of local needs. In the past, cooperative theorists have argued abstractly about the merits of each of these, but we ought to see them as merely choices to be made by their prospective members. Above all, the type of organization promoted has to be compatible with local cultures. Culture is what Bakhtin calls a 'collective programming of the mind', that screens out alternative behaviours that are not socially sanctioned.<sup>119</sup> This means subjects' own perception of their condition is vital. Cooperatives failed in the past when they were imposed by outsiders wanting to 'modernize' people. In the future they must unfold according to the inner potential of a community to evolve. To put it simply, as Munkner does, 'development starts in the head', and the cooperative form must be the idea of the members.

A second principle is that from the start these organizations should be genuine member-owned businesses. Internally this means they should be driven by the needs and priorities of members, who have joined voluntarily and made a real commitment. Externally, this means they are seen by other agencies as self-reliant, autonomous organizations. It follows that they should mobilize local resources, rather than relying on grants or subsidies from outside. These include both natural resources such as access to land,

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<sup>119</sup> Bakhtin in Bakhtin et al (1996) p17

water, and energy, and also human resources such as the ‘economy of affection’ that leads people to share what they have with family and wider kin.<sup>120</sup> The major functions of the cooperative are to provide a forum for discussion, to mobilize local resources, to build up bargaining power and claim-making power, to widen the options for income-generating activities, and to enhance local control over factors of production. They have to do these without increasing the risk; poor people are very risk averse, and their first priority is to conserve what they have. Sustainable cooperative development is about selective integration into the wider economy, and the building up of a defensive structure against poverty at household, group, and village level.

## 4.2. The importance of human resource development

In order for a cooperative to succeed, these principles have to be supplemented by a list of essential ingredients. Management systems are needed, suitable for small sized organizations. Leadership has to be fostered among the members; leaders are needed that can both make the business succeed and remain true to the priorities set by the members. When the organization becomes large enough to need professional management, ‘value-based managers’ are needed who are capable of driving the business forward on behalf of members.<sup>121</sup> Wherever possible, cooperatives should use their own resources, with real contributions by members that build up and express commitment. The cooperative principles guarantee equal access to the services and benefits provided. However, equity means proportionate to the use made of the cooperative’s services; it does not mean absolute equality. The principle of education is needed in order to bridge the power distance between members and leaders that often, due to local culture, inhibits participation.

As in sustainable development more generally, the most important contribution that cooperative promoters can make is in human resources. Munkner and Walter say ‘sustainable development is people-driven so that the most important instrument is investment in human resources’.<sup>122</sup> There is an ‘unlimited need’ for education and training that has to be delivered through long term programmes tailored to specific needs and contexts. The ACOPAM programme, which featured as a case study in Chapter Three, shows how this can be done.

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<sup>120</sup> Munkner, Ch.2 of Bakhit et al (1996)

<sup>121</sup> See Davis (2000)

<sup>122</sup> Munkner and Walter in Bakhit et al (1996) p97

### 4.3. Some easy questions with difficult answers

There are several more important questions to consider. Most of these generalizations apply equally to rural and urban areas. Should there be special programmes to intervene in urban informal economies? Munkner and Walter identify three measures that have to be carried out at the same time: measures to improve the performance of informal enterprises from within, measures to influence overall framework conditions, and to strengthen promotional institutions through training.<sup>123</sup> Should there be special programmes for the poor? There are arguments for and against. Special programmes such as the INDISCO case study illustrates are needed when poor people are severely marginalized. Arguments for special cooperatives are that they can build up solidarity and self-confidence among poor people and meet their specific needs, while avoiding domination by more powerful groups. However, the arguments for general development are that vulnerable groups not isolated, can benefit from services financed by the better off, and can benefit from economies of scale.<sup>124</sup> General programmes to strengthen cooperatives can work well if they do benefit the poor, and evaluation will confirm whether or not this is the case.

Should the promotion of cooperatives vary, depending on the stage of development reached? The kind of inputs that are appropriate depend on whether one is working with a group of poor people who wish to form a cooperative to meet their needs, working with an existing cooperative that is not yet a viable business, and is struggling to get free of dependence on government, or working with a successful cooperative whose members want to expand the business, either to meet more of their needs or the needs of new members. In all cases, human resource development is the key, but the type of resources that are needed can be expected to evolve with the cooperative itself.

How can cooperative development enhance the status of women? It used to be thought that it was in the nature of cooperative principles that women would eventually gain equal status. In developed countries this only occurred when women began to organise separately in women's guilds. So cooperative development has, simply, to be aimed directly at women. It has to create more awareness of the cooperative form of enterprise among women, develop cooperatives aimed specifically at them, and encourage existing male-dominated cooperatives to have a rule that where households are involved more than one person should become a member.<sup>125</sup>

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<sup>123</sup> op cit

<sup>124</sup> Parnell (2001)

<sup>125</sup> Nippierd (2001)

What are the limits to cooperative development? Cooperatives and other member-based self-help organizations are not always needed, and there are some situations in which other alternatives are more appropriate. For instance, participatory development can lead to a more general community organization that consists of citizens rather than members; neighbourhood councils in shantytowns, village committees that have representative rather than economic functions, and so on. Sometimes, more individual solutions are appropriate, such as business development for micro-entrepreneurs (though in this case the cooperation takes place between firms). Sometimes it is claimed that a for-profit company can be clearly demonstrated to do the job better. However, we have seen in the case of SAGUAPAC that cooperatives can be very effective even in water provision where multi-national companies are dominant. Sometimes even after promotional efforts have been made, the conditions for cooperatives are not present. There has to be a demonstrated willingness to cooperate among potential members, some trust in their leaders, and a commitment to make some financial investment.<sup>126</sup> When these conditions are met, though, cooperatives can contribute to poverty reduction even in the most extreme circumstances, such as after a war or natural disaster.<sup>127</sup> After the recent devastating earthquake in Kobe, Japan, the Kobe Cooperative Society responded quickly and effectively to the need for food supplies, even though its own headquarters building had been destroyed.

#### **4.4. What should international agencies be doing to strengthen the cooperative contribution?**

We have noted in Chapter Two how the UN continues to support the role of cooperatives in poverty reduction, but also how in the poverty reduction strategies of the World Bank the cooperative option is not very well recognized. In contrast, when it comes to the actions taken by UN agencies the potential of cooperatives is being recognized, though only as one option alongside other participatory people's organizations. How can the potential of cooperatives be promoted and demonstrated? First, the work of the ILO Cooperative Branch is particularly important, because cooperatives have always been an important part of its strategy for decent work. The ACOPAM and INDISCO programmes have been discussed through case studies in Chapter Three. Mention must be made also of the COOPREFORM programme, which assisted policy makers in creating a favourable climate for cooperative development, assisted governments to reform cooperative laws, and strengthened the capacity of national cooperative organizations to provide technical support services to their members. The COOPNET programme concentrated on the most important

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<sup>126</sup> Parnell (2000)

<sup>127</sup> Parnell (2001)

of development inputs – human resource development, attempting to improve the quality of management and leadership. Even though these programmes have now officially ended, the concepts that drove them are still relevant. They should therefore be remodelled and provided long-term funding so that they can continue to replicate proven cooperative solutions to poverty and unemployment.

At the same time as strengthening cooperative development on the ground, there is a need for expert input in the international development scene. Cooperative development experts should be involved with the new Millennium Project, a network of scholars that will work with experts across the UN system around the MDGs. The ‘fresh thinking’ that it is hoped will be stimulated should include sustained thinking about the role of cooperatives and similar self-help organizations.<sup>128</sup> Cooperative contributions should also be made to the ILO’s World Commission on the Social Dimension of Globalization, an independent commission that aims to move from confrontation to dialogue over the question of whether globalization will benefit the poor.<sup>129</sup>

Cooperative specialists from the ILO, ICA, FAO and other international organizations should combine to help the international community produce greater policy coherence on the subject. In particular, the regional offices of the ICA and national cooperative federations should be involved much more in the development of poverty reduction strategies. Each strategy paper should contain proposals both to offer the cooperative option in the development of new poor people’s organizations, and to reform and strengthen existing cooperative businesses. The World Bank should consider cooperative alternatives for provision of water, irrigation, electricity and telecommunications utilities alongside the for-profit company model. Similarly, the World Health Organization should consider the option of cooperative forms of health care, the FAO should take seriously the tried and tested farmer cooperative model, and so on. The representative bodies of different types of cooperatives, such as the ICMIF and CICOPA, and the umbrella organization for all cooperatives, the ICA, have the burden of making sure that the cooperative option is known and respected internationally. A similar burden is placed on national-level cooperative federations to influence their governments, particularly their international development departments whose staff may be more or less ignorant of the cooperative option.<sup>130</sup>

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<sup>128</sup> United Nations (2002e)

<sup>129</sup> ILO (2002f)

<sup>130</sup> For a good example of such promotion, see Parnell (2000)

#### 4.5. A final word

If cooperatives did not exist, they would have to be invented. We might use different names for them – community self-help groups, farmer-owned businesses, and so on - but essentially as member-driven business organizations they are building blocks of sustainable development. In fact, they are not so much building blocks as foundations, because all the other bricks in the wall – capacity-building, improvement in literacy and health, opportunities for income generation, connections to existing institutions and public services, political advocacy – depend on there being some kind of organization *of* the poor on which to build.

Why, then, are there so few explicit references to cooperatives in the literature on poverty reduction? Development experts may be ignorant of it, or may have reservations over using the word ‘cooperative’ too freely because of the way it has been misused in the recent past.<sup>131</sup> They may, with good reason, be using different terms for the same kind of organization. The problem is that this makes them unable to draw on the rich legacy of cooperative history and theory, and unable to see the closeness of fit between community development and cooperatives. When it comes to promoting people-centred businesses, they may be in danger of ‘reinventing the wheel’, and perhaps taking longer to meet the Millennium Development Goals than necessary. There is no need to reinvent cooperatives when they already exist and, in many ways and in many places are already contributing substantially to the provision of decent work and the reduction of poverty.

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<sup>131</sup> See Imbsen (2001)



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