



**ICA Regional Conference on the role of  
co-operatives in poverty alleviation in  
Asia (Hanoi, Vietnam, March 2006)**

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**The role of co-operatives in  
poverty alleviation**

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# Two aims

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- 1. to summarise the arguments for co-operatives and poverty reduction in the two books:
  - *Rediscovering the Co-operative Advantage: Poverty Reduction through Self-help* (ILO, 2003), and *Cooperatives and the Millennium Development Goals* (ILO, 2004)
- 2. to explore the potential of co-operatives in helping people to escape from poverty traps – drawing on the work of Stephen Smith (2005) *Ending Global Poverty: a guide to what works*, New York: Palgrave Macmillan



## Part One: Arguments for the value of co-operatives in poverty reduction

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- 1 – that cooperative values and principles provide built-in advantages for poverty reduction
- 2 – that the history of co-operatives in developed countries shows great achievements in poverty reduction
- 3 – that even though there have been failures in co-operatives in developing countries these do not indicate weaknesses in the co-operative model.
- 4 – That the essential nature of the cooperative form of organisation is now much clearer
- 5 – That participatory development is cooperative development
- 6 – that the UN's Millennium Development Goals and the poverty reduction strategy of the World Bank need co-operative development if they are to succeed



# 1 – that cooperative values and principles provide built-in advantages for poverty reduction

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- A theoretical argument derived from the nature of co-operatives as member-owned businesses.
- Because they are essentially economic associations, we should expect co-ops to be able to raise the incomes of their members.
- If at least some of their members are poor, then they will, as a by-product of economic activity, achieve a reduction in poverty.
- They are designed to be 'ethical businesses', and so have advantages over other types of business organisation.
- However, they cannot guarantee to reduce poverty because their primary purpose is to meet the needs of their members.
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# 1. continued

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- The principles of voluntary and open membership means they should be open to the poor.
- The return of surpluses to members on the basis of the use they make of it means they can deliver 'growth with equity'.
- The principles concerning equal voting rights and limited return on capital mean they subordinate capital to people, and so give equal rights to poor and less poor members
- BUT we cannot just assume that all co-operatives put the principles into practice



## 2 – that the history of co-operatives in developed countries shows great achievements in poverty reduction

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- The early co-operative movement in Britain was led by poor people.
- They were poor because of economic change, not because they lacked skills or entrepreneurial drive.
- They were rich in human and social capital and aided by middle class supporters and politicians
- The movement took the form not only of consumer, worker, agricultural, housing, credit co-ops but also mutual health and unemployment insurance.
- Together, they raised whole classes of people out of poverty and then stopped them sliding back into it.
- A similar story can be told of co-operative movements as they spread to the rest of Europe: in industrial areas, consumer co-ops cut the cost of living for working class people. In rural areas, agricultural co-ops and co-operative banks secured a livelihood for a whole class of farmers, while urban banks supported skilled workers and small businesses.

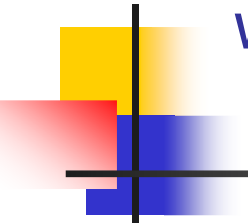


## 2. continued

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- After the Second World War, co-ops played a key part in the reconstruction of the German and Japanese economies.
- As welfare states were created in Western Europe, the mutuals entered into partnerships with governments to deliver health and social insurance
- The current situation is very positive; growth of co-operative health and social care sectors, key role of credit unions in local economic development, involvement of different types of co-op in areas of social exclusion

3 – that even though there have been failures in co-operatives in developing countries these do not indicate weaknesses in the co-operative model.

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- the 'top-down' nature of the development meant that co-ops were never really autonomous associations, owned and controlled by their members
  - The large scale of co-op promotion led to vested interests being created; as Laidlaw said in the 1970s, they had three masters: the government, the civil service and political parties.
  - The resources that were put into co-op development were often appropriated at the local level by existing elites; they benefited the middle income people rather than the poor

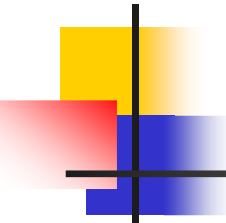


## 3. continued

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- But there were notable success stories; dairy co-ops in India and Bangladesh, coffee co-ops in Kenya, credit co-ops almost everywhere
- Some of those co-operative sectors that were promoted under conditions of state control have the potential to be reformed and strengthened.
- They have extensive village-level networks that could be built on.
- New co-operative laws have been passed in some countries guaranteeing them the autonomy they need.
- The attitude of governments is changing.

## 4 – That the essential nature of the cooperative form of organisation is now much clearer

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- In the past, discussions about the potential of co-ops in poverty reduction were clouded by uncertainty about what people were talking about.
  - Co-ops were criticised for not creating greater equality, when this is not one of their principles. Their potential for 'growth with equity' was overlooked.
  - So what is a co-operative? Thanks to the ICA's identity statement, values and principles, the UN's Guidelines on the Promotion of Co-operatives, and the ILO's Recommendation 193 there is now much more clarity on the subject.
  - The work of these international agencies has enabled new laws to be passed in many countries, guaranteeing the autonomy of co-ops.
  - All of this has made it easier to defend and promote the co-operative form, while making clearer the need to allow co-ops to fulfil their potential in their own way.




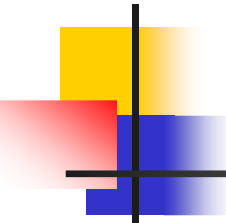
## 4. continued

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- But this work has only just begun. Passing laws is not enough to guarantee that government bureaucracies and political parties will allow co-ops the freedom they need.
- In some countries there is still much political resistance to allowing the movement greater freedom.
- Also, in order for co-op leaders to reform their existing co-ops or start new ones, they need to know about the new laws

## 5 – That participatory development is cooperative development

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- They are essentially the same process.
  - For development NGOs, co-ops have particular advantages.
  - Compared with village-based organisations in which all residents have membership, co-ops more effectively organise particular interests, such as farmers or fishers.
  - They are better at preserving common pool resources (such as water for irrigation, forest products, or fish stocks) than are broader-based organisations.
  - They are more likely to be sustainable after NGOs finish their projects and development funding is spent.



6 – that the UN's Millennium Development Goals and the poverty reduction strategy of the World Bank need co-operative development if they are to succeed

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- The UN cannot achieve the Millennium Development Goals without a massive effort in participatory development through co-ops or similar self-help organisations.
- Co-ops contribute not just to poverty reduction but to meeting several more of the MDGs.
- The World Bank cannot achieve its Poverty Reduction Strategies without harnessing the potential of co-ops. Its aims of opportunity, empowerment, and security can all be achieved through coops.



## 6. continued

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- The World Bank cannot do without engaging with co-ops, if it is serious about involving organisations of the poor in the PRSP process.
- UN agencies need to recognise the potential of particular types of co-op:
  - the FAO needs agricultural coops to ensure inputs and marketing for farmers struggling to connect up with the market economy.
  - The ILO needs worker co-ops, and good employers among the other types of co-op, to help in its decent work strategy.



## Part Two: Co-operatives and poverty traps

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- In his recent book called *Ending Global Poverty: a guide to what works*, Stephen Smith identifies and describes 16 poverty traps. He explains 'From the study of poverty traps...we gain insights into both general principles and the specifics of what poverty programmes must do to be successful'.
- But it is not a matter of measuring which kind of poverty trap someone is in; they are pure types and not an exact description that applies to any one person.
- But they explain why the poor stay poor, and enable us to work out what sort of intervention might release them from these traps.



# Trap 1: Family child labour traps

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- If parents are not productive enough to support a family, children have to work. The children miss out on an education and so later in life do not earn enough to support their family, and so on.
- By raising the incomes of families, and particularly of mothers, co-ops enable them to send their children to school.



## Trap 2: Illiteracy traps

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- Smith points to the lack of credit to enable parents to borrow to pay the expenses of sending their children to school.
- Co-operative micro-credit schemes aimed at women do just this.
- Another strategy is to build on the organisational capacity of co-ops at the local level to provide adult literacy programmes.



## Trap 3: Working capital traps

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- Lack of credit stops small business people from expanding their business, farmers from diversifying their production, and so on.
- There are many examples of micro-credit schemes enabling people to escape this trap. For the poor, who have no collateral, group-based schemes share the risks reassure the lender that the loans are viable.
- The issue here is whether micro-credit should be provided by non-member type NGOs or by co-ops that belong to those who save and borrow.



## Trap 4: Uninsurable risk traps

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- The poor face greater risks than others, and the consequences of losing their livelihoods are much more serious.
- Consequently, their behaviour towards the opportunities to increase their income are very risk-averse. They are cautious and so miss out on these opportunities.
- Group-based risk sharing through mutual insurance enables them to escape this trap. This can be organised through co-ops.



# Trap 5: Debt Bondage traps

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- When poor people are permanently indebted to moneylenders, they become almost slaves, as much of the income from their labour is already owed to someone else.
- One way to escape this trap is for co-ops to provide bridging loans to farmers to even out their incomes so they do not need to borrow from moneylenders.
- Then, when the co-ops help them raise their incomes, they can keep more of the gain for themselves.
- Another useful form for those who have no employment and are tempted to sell themselves into bonded labour is the labour co-op.
- Invented in Italy in the 19th century, and used extensively in India, this type of co-op contracts with government to provide unskilled labour for building work, road building, irrigation work and so on.



## Trap 6: Information traps

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- Poor people such as day labourers and domestic labourers often have to work long hours at menial jobs, and so miss out on information about better alternatives that might be available.
- Co-ops and similar organisations (such as trade unions organising women domestic workers) can provide such information.

# Trap 7: Under-nutrition and illness traps



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- In deeply impoverished areas, and areas suffering periodically from famines, under-nourished people are too weak to work productively.
- One way for governments to reach such people is through consumer co-op that distribute subsidised staple foodstuffs.
- This brings the danger of lack of autonomy for the co-op, but it need not do so. It depends if the co-op has the loyalty of its members, and is also trading successfully in free markets.



## Trap 8: Low-skill traps

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- If people do not have the right skills, employers will not set up in an area, but if there are no employers the people will have no incentive to gain the skills.
- The whole local economy becomes trapped.
- Co-ops can help by gradually increasing skills while at the same time providing a market for people's products.
- One advantage they have over conventional firms is that such firms often taken government grants and tax concessions to set up in a particular locality, but then move away again.
- Co-ops are part of the local economy.



# Trap 9: High fertility traps

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- People do not limit the size of their families if they are unsure about their future
- The stabilising of populations comes with economic growth.
- If co-ops enable people to raise their incomes, this must eventually have an effect on such decisions.
- If we were to compare regions that have successful co-operative sectors with similar regions that do not, would we find a statistically significant correlation with birth rates and average family size?



# Trap 10: Subsistence traps

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- If there are no local markets for produce, or there is no way of transporting produce to market, primary producers such as farmers or fishers will produce for subsistence.
- Co-operatives are the tried and tested way of providing the services of a 'middle-man' that links producers to markets.
- By providing farm inputs they also improve the quality of the produce for sale, and by processing products enable the producer to gain more of the added value.
- These functions can be provided by private traders, but in a market position that tends towards natural monopoly they will charge high prices for farm inputs, offer low prices for the product, and exact high interest rates on credit.



## Trap 11: Farm erosion traps

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- This is the problem of overuse of the land, that results when people are so poor they have no choice but to put short-term needs before long-term sustainability.
- By diversifying farm incomes, co-ops can ease these kinds of pressures.



# Trap 12: Common property mismanagement traps.

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- This is the problem of how to manage common pool resources such as fish stocks, water for irrigation, and forest products.
- The problem is known by academics as 'a prisoners' dilemma'; individuals have an incentive to overuse the resource even though, by coming to agreements that limit the use, everyone will be better off.
- Co-ops provide a forum within which such agreements can be made, and a means of enforcing them.
- Elinor Ostrom has provided some cases, showing that organisations of resource users can be effective when the alternatives – government action and privatisation – have failed.

# Trap 13: Collective action traps



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- Sometimes the only way to improve a situation is for people to work together, yet the costs to individuals of setting up an organisation are high.
- There is a temptation to let others do the work (to free ride) and so the collective benefit is not provided.
- Co-ops do not overcome this problem, they suffer from it.
- However, the example given by successful coops can persuade people to invest their time and energy in setting up their own coop
- Apex federations can provide the training and support needed that reduces the costs to individuals



## Trap 14: Criminality traps

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- When there is no way of making a living from legitimate business, some people turn to crime.
- Often their victims are other poor people.
- Also, when incomes are low and paid employment does not guarantee subsistence, corruption can become endemic.
- Co-ops provide an alternative, but they can also be caught in this trap.



# Trap 15: Mental health traps

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- Smith points out that 'depression and anxiety are pervasive among the poor', that they can suffer shame and humiliation from richer neighbours
- This is made worse by domestic abuse, drug and alcohol dependency
- Poor mental health becomes another form of poverty trap.
- Co-operative development, if done in a participatory way, empowers people and gives them a sense of pride and hope for the future.
- It is particularly effective when focused on women
- An increase in women's economic activity improves their status within the family and the local community.



# Trap 16: Powerlessness traps

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- The poor are often kept down by 'the active connivance of the rich, who benefit from low wages and subservience'.
- Barriers are deliberately built around them by those who benefit from their poverty.
- This is a real problem for co-operative development, since attempts to reach the poor have, in the past, been diverted and the resources taken by a rural elite.
- As a result, co-ops got a bad name for reinforcing inequalities and benefiting already well off landowners.
- Participatory development, built around the empowerment of the poor and of women, is part of the answer.
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# Some difficult questions remain



- Arguing for the co-operative model of development is only the first task we have to accomplish. And we could do it better if we had good co-operative STATISTICS
- Then we have to deal with the practical question of how to enable co-operatives to reach their potential.
- To what extent can existing co-operative sectors be reformed and strengthened, so that they begin to impact on poverty?
- Are there new sectors emerging that are not hampered by having been set up under the old system of government patronage and control? If so, how can they be strengthened?
- How can both old and new sectors be connected up to the poverty reduction strategy process? What sort of human resources do they need to enable them to do this?



# Speaking the language of international development

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- One of the main problems is communication. How do we help national-level co-operative federations to speak the language of international development?
- And how do we help international development agencies to understand and appreciate the work of these apex federations?