Co-operatives and Poverty Reduction: Findings from a Research Project

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This article reports on the findings of a two and a half year study to investigate the role and potential of co-operatives in poverty reduction. It follows an earlier article in this journal where we outlined the research agenda on these important issues (Birchall & Simmons, 2007), and is based on a longer report published by the Co-operative College (Birchall & Simmons, 2009). The article suggests that co-operatives have significant potential for poverty reduction relative to other types of organisation, and that many co-operatives are currently helping their members to achieve more than they could on their own. It also suggests that with the right kind of support co-operatives are capable of increasing the help they are able to offer their members to escape from poverty.

At the Millennium Summit in New York, in September 2000, the largest gathering of heads of state the world has ever seen committed themselves to the Millennium Development Goals (MDGs). Behind the MDGs was some shrewd thinking about the multidimensional nature of poverty and about the need not just for economic development but for *human* development. Instead of seeing poverty just as a lack of income, they defined it as a “lack of basic capabilities to lead full, creative lives”. These capabilities include having a decent standard of living, but also living a long and healthy life, being educated, and enjoying political and civil freedoms. They depend on essential conditions such as a sustainable environment, gender equity and a fair global economic system. What progress has been made towards the MDGs? The UN Secretary General reckons “we face nothing less than a development emergency” (United Nations, 2008). The UN blames slow progress in opening up world trade to developing countries, and cutbacks in development aid. There is also a growing realisation that there has been a collective neglect of agriculture in developing countries, and the World Bank has begun to concentrate its efforts on reviving rural economies through improving food output (World Bank, 2008).

Paul Collier (2008) has identified four traps that countries get into that can have a significant braking effect: a conflict trap, a natural resource trap, a landlocked country trap, and a governance trap. His work provides a credible and more nuanced explanation of why, despite the best efforts of the world community, some countries remain obstinately poor. We know that it is not easy to find ways to escape these traps but also that there is a lot that people can do for themselves now, and in small ways that involve action on a human scale. Many people in developing countries want to get involved; the poor are willing to help themselves if they are only given a chance. For example, in the informal economy in the cities of the South, mutual aid between small business people can make all the difference to their lives (Smith and Ross, 2006). More generally, co-operatives are seen as a vital way in which people in the South can help themselves.

To examine the potential for this kind of action, we undertook a two and a half year research project, funded by the Economic and Social Research Council as part of its Non-governmental Public Action programme. The study covered two country cases, Tanzania and Sri Lanka. At the *national* level, we conducted documentary analysis and interviewed key informants including people from the co-operative movements, governments, donor organisations, NGOs and the private sector. In total we interviewed 30 key informants in each of our case study countries. At the *local* level, we carried out a face-to-face survey of primary co-operatives. Three regions/provinces in each country were selected (one rural, one urban, one peri-urban) and for these regions a list of active co-operatives of four types was compiled: consumer, credit, agricultural and fishing and industrial co-operatives. This resulted in a large dataset of more than 475 co-operative managers and 250 member-directors.

Brief findings from the research

An important question concerned whether co-operatives are able to raise their members’ incomes. Overall, 86.8% of co-operative managers in Tanzania and 79.6% of those in

Sri Lanka told us that they were effective at raising members' incomes (88.6% of members in Tanzania and 81.6% of those in Sri Lanka agreed). How do co-operatives raise their members' incomes? In the *multi-purpose* and *credit* co-operatives, a widely-identified factor was the ability for members to receive small loans to support their own self-employment through retail shop-keeping, farming or keeping livestock. Such loans are very difficult for people to get elsewhere; these business activities would never get off the ground without the co-operative. *Agricultural and fishing* co-operatives support their members by providing the right kind of knowledge and training. They provide up-to-date technical information, and supply much needed inputs to their members' businesses at low prices or on credit: seeds, equipment, chemicals, fertilizers, but also livestock and agricultural equipment, fishery nets and other equipment. Crucially, the co-operative is able to offer a higher price to their members for their produce than they would be able to get from private traders. Similarly, *industrial and craft* co-operatives help their members to produce saleable products. A major benefit is the shared facilities provided by the co-operative, such as a common service centre in a village which means members can make a living where they are, rather than having to move to the city.

These are just some of the ways in co-operatives work to help improve the incomes of their members. However, in addition to income poverty our research shows that co-operatives in Sri Lanka and Tanzania make a particular contribution in terms of skill development and education; gender equality and the empowerment of women; help when members suffer illness or other setbacks such as bereavement, and help to improve members' shelter and living standards. They also take their central role in communities seriously, particularly in terms of solving common problems in the community and the creation of 'good citizens'.

This evidence points to co-operatives being rather good at poverty reduction. But supposing another type of organisation was better? In general, the comparative advantage to co-operatives is derived from membership. Co-operatives are uniquely member-owned, member-controlled and exist to provide benefits to members. When the purposes of the business are aligned with those of members the results are loyalty, commitment, shared knowledge, member participation, underpinned by strong economic incentives (Shah, 1996). The disadvantages are the obverse of the advantages; when the purposes of the business are not aligned with those of the members, apathy or cynicism result, members lose interest and cease to participate. This leads to management pursuing their own interests, and to complacency and a reinforcement of oligarchic tendencies among the board.

Asked to identify the advantages of co-operatives, our respondents had a great deal to say. Content analysis of our survey responses has helped us to distinguish a wide range of factors, including:

- Financial advantages.
- Flexibility.
- Understanding.
- Supporting production.
- Marketing support.
- Help to the poor.
- Welfare orientation.
- Wider developmental role.
- Relationship with government.
- Ability to collaborate.
- Collective empowerment.
- Democracy and accountability.
- Equality.
- Ownership.
- Unity and togetherness.
- Member/community support.
- Connectedness and reach.
- Physical proximity to poor populations.
- Importance of trust.
- Ethical business activity.

These findings map well on to the ICA principles that show how co-operatives 'ought' to work. Other organisations may also show some or other of these advantages, but only in co-operatives is it possible to see them all. This suggests a 'constellation' of advantages in co-operatives that is unique to the co-operative organisational form. When we looked at the disadvantages, our respondents had much less to say. The main disadvantages were:

- Financial disadvantages.
- Inflexibility.
- Lack of skills.

- Technical resource issues.
- Lack of marketing support.
- Relationship with government.
- Democracy and accountability.
- Lack of trust.

However, the effects of the disadvantages are not always felt in the same way as the advantages. For example, financial advantages are fundamental to co-operatives, and fall into several categories:

- Co-operatives provide more easily obtained loans, at low interest rates.
- Through bulk-buying, they are able to offer high quality goods at low prices.
- They are able to get good prices – or at least 'maintain a reliable price' – for members' production (whether agricultural or manufacturing).
- Credit co-operatives have been able to expand their members' savings. This provides both a 'buffer' in case of emergencies and greater security for members' money.
- They return benefits of the business back to their members through dividends.

These financial advantages are all internal to the organisation. By contrast, the biggest *financial disadvantage* was external to the organisation – co-operatives across all four sectors in our two case study countries told us that a lack of financial backing was problematic. External assistance would be welcomed, although most co-operatives were not looking for free handouts, just greater access to loan finance.

Realising the potential of co-operatives in development

Overall, co-operatives are keen to help self-employment opportunities and new businesses through the further provision of credit and loans, and want their members to receive more training and knowledge to help them be more productive. They want to expand the supply of machinery and equipment, fertilizers and raw materials, to supply water or electricity in order to increase production, and to improve roads to allow easier access to markets. They are keen to trade as fairly as possible with their members. They want to promote the idea of the co-operative, by creating good relationships locally and proving its value. However, many co-operatives realised that they could not do everything on their own. Indeed, 97% of co-operatives in Sri Lanka and 94% in Tanzania said that they now needed outside help in order to raise their members' incomes significantly further. Hence, while their over-riding focus was on self-help and mutual aid, their experience also told them that there are limits to what they can achieve, stemming from factors co-operatives can themselves do little about. In their answers there was often a tone of frustration that their entrepreneurial spirit faces these constraints. Hence, there was a clear focus on building new relationships and co-operation with other actors such as government, donors, NGOs and the private sector, in order to better meet their members' needs. We believe this constitutes a clear agenda from the perspective of the primary co-operative societies; it is up to governments and donors to respond.

What will it take for co-operatives in developing countries to make an impact on poverty and the Millennium Development Goals? We have to admit that the wider environment is crucial. Without country-level improvements that guarantee peace, fair terms of trade and good governance, co-operative members may well feel the problems are too great. The four traps identified by Paul Collier have to be released if we are to stand any chance of developing sustainable co-operatives. Encouragingly, the importance of agricultural co-operatives and savings and credit co-operatives is gradually being recognised by some governments. For example, in Tanzania a co-operative reform process is underway that goes beyond anything currently being attempted in Sri Lanka (Birchall & Simmons, 2009). However, in many countries reform needs to be driven forward and vested interests need to be challenged at the highest level. Government assistance should be targeted at education programmes for members and capacity building among leaders and managers. The problem of lack of access to markets is another that governments can help tackle, providing improved access to regional and international markets by removing physical constraints such as lack of roads and legal constraints such as restrictions on exports and on cross-border trade (Birchall & Simmons, 2011, forthcoming).

Yet we do not have to wait for solutions to come from on high; co-operatives can be part of this process. Apex federations can be strengthened or rebuilt so as to represent their membership effectively. To grow their businesses, primary co-operatives can scale up through establishing secondary-level business associations. Many primary co-operatives are very isolated, particularly those situated in remote rural areas. They need to begin to establish business relationships with other co-operatives in order to share costs and risks and to innovate and develop new products. However, to do these things co-operatives often need technical help and some financial support. We were told that many NGOs do not understand the nature of co-operatives, and so are ineffective in developing genuine, member-controlled businesses. In contrast, we were impressed by the way in which co-operative movements in the North are providing the right kind of help through specialist development agencies such as the Canadian Co-operative Association and Desjardins International. Their technical support staff really understands what co-operatives are all about.

Individual co-operative societies in the Northern countries can also play their part. They can be entering directly into business partnerships with co-operatives in the South in order to develop fair trade. Hence, the good news is that there is plenty that co-operative members in the developed world can do - working together with co-operatives in the developing world in an equal partnership based on fair trade to give new meaning to the principle of 'co-operation between co-operatives'.

The Authors

Richard Simmons is a lecturer in Social Policy at the University of Stirling in the UK, where he has been actively engaged in researching co-operatives in various settings for the last decade. He is particularly interested in the governance of effectiveness of co-operative and mutual organisations. He is currently developing work on self-help and mutual aid responses to the 'Big Society' agenda, co-operative networks and local economic development, and co-operative and mutual approaches to the recession. Johnston Birchall is a Professor in the School of Social Sciences, Stirling University. As a specialist in socio-economics, he focuses on stakeholder participation through co-operatives, mutuals and user-controlled public service agencies. He has published 10 books on the subject (with translations into five languages), the latest being *People-centred Businesses: Co-operatives, Mutuals and the Idea of Membership* (Palgrave Macmillan, 2010). He has been advising UN agencies on co-operative responses to the global economic crisis, and is currently writing a book on people-centred banking.

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