Helpdesk Research Report: Cooperatives and development

7th April, 2011

Query: Please provide an overview of the role of cooperatives in pro-poor aid interventions and development, and identify donor approaches and lessons learned in supporting and facilitating their role and impact. In relation to aid interventions (donor involvement), please outline best practices, advantages/disadvantages of different approaches and recent lessons learned. Grateful for inclusion of examples, empirical evidence and any seminal research in this specific field where it exists.

Enquirer: AusAID

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1. Overview

A cooperative is an autonomous association of people united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity (UN, 2011). Although the reliability of figures is poor, cooperatives appear to operate on a significant scale in developing countries: studies have shown that over seven per cent of the African population are affiliated to primary cooperatives, and this number is increasing (Delvetere, 2008; Pollet, 2009). Cooperatives are said to have wide-reaching, direct and indirect impacts on socio-economic development (UN, 2009). Nevertheless, cooperatives face real challenges in the form of over-control and regulation by government, limited access to credit, inability to scale up their activities, and inability to penetrate markets. Moreover, there are enduring questions surrounding the feasibility of cooperatives pursuing socio-economic goals, and whether or not they are truly able to serve poor people. In many countries, cooperatives have struggled to gain independence from state control.

Impact of cooperatives on development and poverty reduction

In spite of their chequered history, cooperatives are widely seen to have potential to impact on development and poverty reduction (Birchall, 2008). DFID (2010), for example, argue that cooperatives make an important contribution to sustained economic growth and to making markets function better for poor people (DFID, 2010). The UN has acknowledged important direct and indirect impacts on socio-economic development in terms of promoting and supporting entrepreneurial development, creating productive employment, raising incomes and helping to reduce poverty while enhancing social inclusion, social protection and community-building (UN 2009). Several studies argue cooperatives not only directly benefit their members, but also have positive effects for the rest of society (UN 2009).

More specifically, agricultural cooperatives play an important role in food production and distribution, and in supporting long-term food security. Savings and Credit Cooperatives (SACCOs) are increasingly popular and may soon be the most common form of cooperative within the African cooperative movement (Pollet, 2009). They are seen to expand poor people's access to financial services (loans and savings), support enterprise start-up and expansion, and reduce vulnerability by allowing the poor to accrue savings, build assets and smooth out consumption. They are one of the largest providers of micro finance services to the poor, reaching 78 million people living below $2 a day (DFID, 2010). Cooperatives are also sometimes seen as beneficial for conflict resolution, peacebuilding and social cohesion.

Whilst cooperatives are often described as promoting both economic and social goals, the evidence in regard to the latter is weaker, and sometimes contradictory. Pollet (2009) finds that whilst cooperatives may have a significant direct impact on people's life through the services they deliver (e.g. credit, agricultural inputs, access to markets, storage and transport, housing, among others), evidence of their significance in other social and societal domains has not been particularly forthcoming.

Factors associated with the success of cooperatives

Maximising the potential of cooperatives to contribute to poverty reduction goals is an ongoing concern for academics and development agencies. Whilst there is limited 'lessons learned' type material available on the experience of development agencies in supporting cooperative development, there is a growing body of evidence regarding the internal factors and structural conditions that affect the relative success or failure of cooperatives (GSDRC, 2008). The most common factors cited in the literature are:

- An **enabling legal environment** that creates economic conditions favourable to profitability, and a regulatory system favourable to business success. Legal provisions must protect democratic member control, autonomy and independence, voluntary membership, and economic participation in cooperatives and provide a level playing field for cooperatives to compete with other enterprises (e.g. there should be no pricing limitations on cooperatives). It also needs to ensure simpler registration and reporting processes, and a transparent system for auditing cooperatives (DFID, 2010)
- **Access to credit** is necessary for success. The amount of capital that can be accumulated by credit cooperatives operating at the local level is usually quite low.
- Cooperatives need **capable management and governance** and the ability to adapt to prevailing business conditions. Cooperatives must develop professional management, be democratic, inclusive, fair, transparent and have strong leadership.
- A main challenge facing many cooperatives is over-control and regulation by government (DFID, 2010). **Autonomy and freedom from government control** is positively associated with success. While government support can be helpful, governments should avoid overregulation. In Ethiopia, US technical assistance has helped overcome this legacy (Assefa 2007).
- Cooperatives have failed without **a market-driven approach** that allows them to compete. They need a competitive advantage through professional management, operational and financial efficiency, high quality products, and competitive pricing (OCDC, 2007)
- The Fair Trade Movement has assisted cooperatives to gain access to markets in some contexts. In Rwanda, US technical assistance helped two cooperatives qualify for fair trade status, which greatly increased their profits (OCDC, 2007).
- Successful cooperatives have **purposely increased collaboration** with other cooperatives. Cooperative networks can help cooperatives to rapidly gain scale and can support better governance and training. A number of development agencies adopt a network and systems approach which aims to foster consensual networks among cooperatives.

Lessons from donor support to cooperatives

Donors use various strategies to support and enable the development of successful cooperatives. These mainly take the form of institutional strengthening, capacity building, agricultural development, value chain monitoring, rural access to finance and training in governance (Pollet, 2009). Delvetere (2008) notes that many agencies are now opting for long-term working relations with a small number of cooperatives in lieu of short-term commitments to a broad range; are showing a preference for a network and systems approach (fostering consensual networks among cooperatives); and stressing that cooperatives have to be considered as private economic actors. The focus is now more on supporting the financial management, solvency, profitability, financial sustainability, market penetration or return on investment of cooperatives by using tools such as revolving loans funds, bank guarantees, loans or equity capital (Delvetere et. al. 2008, p.25). DFID similarly suggest that donors, the private sector and government can play three main roles in strengthening cooperative's contribution to poverty reduction: promoting a more enabling legal and policy environment; strengthening co-operative networks by supporting the agencies that promote collaboration and provide services to cooperatives, and; helping cooperatives perform better through greater access to finance, capacity building, and opportunities to scale up and expand market access (DFID, 2010).

Although there are no comparative analyses available which discuss the relative benefits of one type of support versus another, there does appear to be some consensus that the following principles are key:

- Donors can respond to the challenge of lack of liquidity among cooperatives **by increasing cooperatives' access to finance in a range of ways**, including: providing revolving loans funds, bank guarantees, or equity capital to increase the capitalization of financial cooperatives; engaging with commercial banks to increase their willingness to lend to cooperatives on good terms; and in some cases providing low interest loans directly to cooperatives to support expansion of their business (DFID, 2010).
- International guidelines on supporting cooperatives emphasise **special consideration should be given to increasing women's participation** in the cooperative movement at all levels.
- Support to cooperative development should **avoid creating dependency**, which undermines the mutual self-reliance that is central to cooperation. Donors should be careful not to compromise cooperatives' true (business) nature through direct financial aid (Birchall, 2008). They should **respect cooperatives' institutional integrity**, with their distinctive model of governance and enterprise (DFID, 2010). Policies to strengthen cooperatives should seek to strengthen systems that are already productive, rather than installing new institutions or procedures (Pollet, 2009).

2. Assessing the impact of cooperatives on development

UN, 2009, 'Cooperatives in Social Development', Report of the Secretary-General, United Nations, New York
http://www.un.org/esa/socdev/social/cooperatives/coop_docs.html

This report argues cooperatives have direct and indirect impacts on socio-economic development by promoting and supporting entrepreneurial development, creating productive employment, raising incomes and helping to reduce poverty while enhancing social inclusion, social protection and community-building. Whilst cooperatives directly benefit their members, they also offer positive externalities for the rest of society, and have a transformational impact on the economy. Some of the specific ways cooperatives contribute to development goals include:

- Agricultural cooperatives play an important role in **food production and distribution**, and in supporting **long-term food security**. To give an idea of scale, in India there are some 150,000 primary agricultural and credit cooperatives serving more than 157 million agricultural/rural producers. Some agricultural cooperatives improve farm productivity by obtaining inputs at low cost, encouraging sustainable farming techniques, and developing members' management and organizational skills. In Nicaragua, for example, Central de Cooperativas de Servicios Multiples (PRODECOOP), a federation of small coffee-producing cooperatives, integrates all the cooperatives in a given area to improve the quality of the coffee and to trade in the international market. PRODECOOP also maintains an Education and Training Fund capitalized with 20 per cent of the surplus made, to improve productivity.
- Agricultural cooperatives also **promote the participation of women in economic production**, which, in turn helps in food production and rural development: 'through cooperatives, women are able to unite in solidarity and provide a network of mutual support to overcome cultural restrictions to pursuing commercial or economic activities' (p.8). For example, women-only cooperatives in South Asia facilitate economic independence and improve the social standing of women through their active participation in businesses and management. A survey in Nigeria indicated that compared to non-cooperative members, women engaged in cooperative activities were better off, both in terms of productivity and economic well-being (p.8).
- Financial cooperatives (credit unions, savings and credit cooperatives or cooperative banks) enable **easy access to savings and credit at low-cost**. They work by pooling limited capital: members' mandatory purchase of ownership shares in the cooperative and their deposit/savings accounts serve as the funding base to enable the cooperative to extend credit to members. Financial cooperatives are the largest providers of microfinance services to the poor. It is estimated that globally, financial cooperatives reach 78 million clients living below a poverty line of $2 per day. In South Asia, for example, 54.5 per cent of borrowers living below $2 per day were served by cooperatives, compared to 19 per cent served by other microfinance providers. 'Financial cooperatives thus play a central role in the achievement of an inclusive financial sector that encompasses the poor' (p. 11).
- Financial cooperatives contribute to poverty reduction in various ways. Access to credit to finance micro, small and medium enterprise generates employment and incomes. Low-cost savings facilities for the poor and small depositors help to reduce members' vulnerabilities to shocks such as medical emergencies, and encourage future investments, including education and small business enterprises. 'Empirical research of the last decade has demonstrated that demand for savings services exists, even among the poorest. If formal means of savings are unavailable, poor people tend to use livestock, jewellery or other informal arrangements that

typically have a low or negative interest rate. For people living in poverty, savings is critical to counterbalance the cyclicality of income. For example, coffee farmers in Rwanda join financial cooperatives to save money for the period before the next harvest and to reserve money for low yield years' (p.9).

- In many countries, cooperatives are substantial **providers of social protection**, especially health coverage. In some countries, they participate in the management of compulsory health insurance or provide services through their networks of health and social facilities. Governments have partnered with cooperatives to extend social protection. For example, the Yeshasvini Cooperative Farmers Health Scheme (Karnataka, India), which serves 2 million people, is financed by members' annual premium contributions and government subsidy (p.10).
- Cooperatives have been **instrumental in peacebuilding**. In Sri Lanka and Nepal, cooperatives have been the only independent organizations allowed by all parties to operate in conflict zones.

The report points out that like other business enterprises, cooperatives have limitations, and will thrive in supportive environments and struggle in others. The success of cooperatives is a function of capable management and governance and the ability to adapt to prevailing business conditions. 'The primary means therefore of leveraging cooperatives for socio-economic development is to promote their formation and growth in a sustainable manner, consistent with cooperative values and principles and respectful of their autonomy. This requires a sound policy and legislative framework and a level playing field vis-à-vis other enterprises' (p. 14).

Pollet, I., 2009, 'Cooperatives in Africa: The Age of Reconstruction: Synthesis of a Survey in Nine African Countries', International Labour Office, Dar es Salaam
http://www.ilo.org/public/english/employment/ent/coop/africa/download/wp7_ageofreconstructon.pdf

This report presents the findings of a baseline study to assess the nature and extent of the cooperative movement and its effectiveness as a development model across nine African countries (Botswana, Ethiopia, Kenya, Lesotho, Rwanda, Swaziland, Tanzania (including Zanzibar), Uganda and Zambia). It finds that whilst cooperatives may have a significant direct impact on people's life through the services they deliver (e.g. credit, agricultural inputs, access to markets, storage and transport, housing, among others), their significance in other social and societal domains has not been particularly forthcoming. The idea that cooperatives take on social development campaigns is not always realistic.

Some of the main findings on the nature and scale of cooperatives in the countries studied are:

- Although the reliability of figures is poor, cooperatives do have a significant presence: over seven per cent of the African population is affiliated to primary cooperatives. The number of cooperatives is growing; most countries have hundreds of new cooperatives registered every year.

- Savings and Credit Cooperatives (SACCOs) could soon be the most common form of cooperative within the African cooperative movement.
- More often than not, building and maintaining a movement structure comes as a challenge, and there are severe deficiencies in Southern African countries (Zambia, Botswana, Lesotho, and Swaziland).
- Government involvement varies: some take on a pro-cooperative attitude, with corresponding legislation, but in some cases, regulation is seen as meddlesome: 'the line between supporting and controlling may remain a subject of controversy for some time to come' (p. 27).
- Cooperative movements have benefitted from various bilateral and multilateral donor programmes. Most programmes support institutional strengthening, capacity building, agricultural development, value chain monitoring, rural access to finance and training in governance.
- Data on the direct employment cooperatives represent is inadequate, which makes it difficult to determine their macroeconomic implications. Preliminary estimates are that in most of the countries between 0.2 per cent and 0.5 per cent of the total population (not labour force) gain employment through the presence of cooperatives (p.28).
- Cooperatives do not as yet provide additional systems of social protection (other than traditional in-group mutual support), nor do they effectively give their constituency a voice. They are not adequately equipped to be a vehicle for life quality campaigns, such as gender equality, environmental awareness or HIV/AIDS prevention.
- Whilst cooperatives in East Africa (Kenya, Tanzania, and Uganda) are developing well and are becoming more prominent as a civil society force, in the Southern African countries (Zambia, Botswana, Lesotho, Swaziland), cooperatives need to make many advances before they could re-emerge as significant actors in society.

As a development model, cooperativism as yet lacks a clear sense of identity, target group and role. On the whole, the African cooperative movement is incoherent, lacking a common praxis and organization structure (Develtere, 1994). For the most part, cooperative services, advocacy and regulation are undertaken either by government departments or by foreign cooperative movements. Whether cooperatives do cater for the poor, as well as the rest of society, is an enduring question. While some recent studies have found that the majority of members of rural cooperatives in Africa are poor (Nair and Kloeppinger, 2007), there has been a long-standing view that cooperatives are not for the poorest, who probably cannot even make small savings. Nevertheless, there is agreement that the poor can solve some of their problems through organized self-help more effectively than they could in isolation. 'This implies that cooperation may be a way to combat poverty, but if such an intervention is to be sustainable, it should focus upon economic viability and only target the poorer segments once viability is established' (p. 30).

Another question is whether cooperatives can viably carry out external development campaigns, including decent work, gender awareness, HIV prevention, environment protection or preparing people for elections. Whilst some cooperatives have been used to facilitate health campaigns, such as the HIV/AIDS awareness campaign in Ethiopia (supported by USAID) (OCDC, 2007), the general tendency seems that most African cooperatives are not ready to take up responsibilities beyond their core economic interests. Donors should support African cooperatives capacity so that they may undertake this role' (p. 31). Other strategic recommendations for those working with cooperatives in Africa include:

- Policies to strengthen cooperatives may be different in different places. They should seek to strengthen systems that are already productive, rather than installing new institutions or procedures. This means that in Uganda and Tanzania confederations would be supported whereas in other countries (Ethiopia, Rwanda, Zambia, Lesotho, and Swaziland), it would be the government cooperative department that facilitates development.
- In terms of training and education, short courses for cooperative staff and members should be systematised, and delivered by cooperative colleges to make them less donor dependent.
- Before they can take on social development campaigns, cooperatives need to be performing their primary role well (that is - strengthening the self-reliance of groups of people who may not have access to basic goods and services).

O. Wanyama, F., Develtere, P., and Pollet, I., 2008, 'Encountering the Evidence: Cooperatives and Poverty Reduction in Africa', School of Development and Strategic Studies, Working Papers on Social and Co-operative Entrepreneurship, WP-SCE 08-02, Maseno University, Kenya
http://www.cooperatiefondernemen.be/wp/WP%20SCE%2008-02.pdf

This paper explores empirical evidence of the contribution of cooperatives to poverty reduction in Africa, focusing on Rwanda, Ethiopia and Kenya. It demonstrates that cooperatives have significantly contributed to the mobilization and distribution of financial capital, created employment and income-generating opportunities, constituted a forum for education and training, and set up solidarity schemes to cater for unexpected expenses related to illness, social welfare, death and other socio-economic problems. Specifically:

- Cooperatives impact on **employment and income generation** in three ways. First, they create employment opportunities by offering direct wage employment to people who work in them, and by guaranteeing a decent self-employed income for their members. Second, cooperatives increase income-generation by creating marketing opportunities for members, and by negotiating for better prices to improve members' profit margins. Third, they make loans available to their members for a variety of uses, the most common of which has been the creation of employment and income-generation opportunities. These effects may spill over effects to non-members who engage in transactions with cooperatives.

- Cooperatives have also **supported the health and education of members** and their families. Members' use incomes and loans to educate their children, and several cooperatives have undertaken (with donor funding) initiatives to educate and train their members. There are cases where cooperatives have taken part in health information campaigns. Cooperatives also play a role in social protection by providing members with emergency loans to cope with unexpected events and emergencies, such as sudden death and food crises.

Birchall, J et al (2008) 'The Role and Potential of Co-Operatives in the Poverty Reduction Process: Full Research Report', ESRC End of Award Report, RES-155-25-0077. Swindon: ESRC
http://www.esrc.ac.uk/my-esrc/grants/RES-155-25-0077/outputs/FullResearchReport/Read/7f75b5f0-8b1c-46e1-a4bc-75d7468d7b48

This report presents the findings of a research programme which sought to produce empirical evidence of the impact of cooperatives on poverty reduction in Sri Lanka and Tanzania, and to assess their comparative advantages and impact on poverty reduction strategies. The findings show that cooperatives do play an important role in poverty reduction. For example, 87% of cooperative managers in Tanzania, and 80% of those in Sri Lanka, indicated they were effective at raising members' incomes and 89% of members in Tanzania and 82% of members in Sri Lanka agreed.

Based on the survey data, the report puts forward several recommendations about the support development agencies could usefully provide to cooperatives:

- 'Everyone is clear that donors should be careful not to compromise cooperatives' true nature through direct financial aid to primary societies; more finance is needed, but in the form of business loans and grants for in-kind services such as training and capacity building.
- Donors should be pressurising governments to engage in a genuine reform process.
- Technical support should be provided by Co-operative Development Agencies that understand better than other NGOs the nature of cooperatives, and can therefore help develop cooperatives with more of the organisational comparative advantages we have identified.
- The financial capacity of cooperative sectors can be enhanced by making funds available to a central co-operative bank for on lending to primary co-ops.
- Government assistance should be targeted at improving cooperatives' access to markets.' (pp.10-11)

3. Lessons from donor support to cooperatives

DFID, 2010, 'Working with Cooperatives for Poverty Reduction', Briefing Note, UK Department for International Development, London
http://www.co-op.ac.uk/wp-content/uploads/2010/08/Cooperatives-Briefing-Note.pdf

This policy brief outlines the role of cooperatives in poverty reduction, and presents lessons and case study analysis from DFID's experience of supporting cooperative development around the world. It argues that cooperatives make an important contribution to sustained economic growth and to making markets function better for poor people. Donors should respect cooperatives' institutional integrity, with their distinctive model of governance and enterprise.

Cooperatives contribute to poverty reduction in the following ways (see pp. 3-4):

- **Contribute to sustained economic growth:** The top 300 global cooperatives have a combined turnover of US $1.1 trillion. Cooperatives employ over 100 million people (more than multinational corporations) and contribute to increased agricultural productivity, expanded access to financial services and critical utilities such as electricity. Cooperatives can also make a significant contribution to GDP.
- **Help create more equitable growth:** Cooperatives can help make markets work better for poor people, by generating economies of scale, increasing access to information, and improving bargaining power. Cooperatives have over 800 million members and many operate in the informal sector where they can transform the survival activities of the poor into viable livelihoods. Cooperative profits are re-invested in the business or shared with members so the rewards of enterprise are retained locally.
- **Help tackle rural poverty:** Cooperatives increase the productivity and incomes of small scale farmers by helping them collectively negotiate better prices for seeds, fertilizer, transport and storage. They help farmers expand market access and capture more of the value chain - for example, by getting involved in processing activities. Cooperatives are often the main channel through which smallholders access Fairtrade certification, which guarantees a minimum price and extra funds for investment.
- **Expand poor people's access to financial services;** including credit savings and in some cases insurance and remittances. These services can support enterprise start-up and expansion; enable the risk taking that can lead to increased profitability; and reduce vulnerability by allowing the poor to accrue savings, build assets and smooth out consumption. Cooperatives are one of the largest providers of micro finance services to the poor, reaching 78 million people living below $2 a day.
- **Provide a range of services such as health care, housing, and utilities such as water and electricity:** Cooperatives have been successful in expanding access to water and

electricity for poor people and reducing wastage from illegal diversion of utilities. In Bangladesh, as in the US, rural electricity cooperatives were set up to meet communities' own needs in the absence of any external private firm seeing this as a viable market opportunity – in Bangladesh these serve about 28 million people, with start up support from DFID and USAID.

- **Provide an opportunity for self determination and empowerment of poor people:** They foster a culture of good citizenship and enable their members to have a voice and participate in a democratic process, thus having empowering development effects beyond their economic benefits.
- **Help with conflict resolution, peace-building and social cohesion:** Where cooperatives bring together people of different religious, ethnic and political groups they can build trust and solidarity leading to greater social stability. Cooperatives have been found to contribute to recovery from conflict by fostering positive relations between ethnic groups previously in conflict in Bosnia, East Timor, Lebanon, Macedonia, Mozambique, Nepal and Rwanda.

The policy brief presents case studies of cooperative initiatives funded by DFID and other donors in finance, agriculture, utilities and other sectors. Lessons from these experiences suggest donors, the private sector and government can play three main roles in strengthening cooperatives' contribution to poverty reduction:

- **Promoting a more enabling legal and policy environment**; The main challenge facing many cooperatives is over-control and regulation by government. A robust enabling legal environment with solid prudential regulation needs to protect democratic member control, autonomy and independence, and voluntary membership. It also needs to ensure simpler registration and reporting processes, and a transparent system for auditing cooperatives. Governments may also provide tax incentives for large scale buyers to trade with cooperatives
- **Strengthening cooperative networks by supporting the agencies that promote collaboration and provide services to cooperatives**; Cooperative networks can help cooperatives to rapidly gain scale and access to deals negotiated at national or international levels which lead to greater profitability. National cooperative structures should be supported to represent the voice of cooperatives when engaging with government. Support to international networks can also be valuable.
- **Helping cooperatives perform better through greater access to finance, capacity building, and opportunities to scale up and expand market access**:
    - A lack of liquidity is one of the key constraints facing cooperatives. Donors are responding to this challenge and increasing cooperatives' access to finance in a range of ways: providing revolving loans funds, bank guarantees, or equity capital to increase the capitalization of financial cooperatives; engaging with commercial banks

to increase their willingness to lend to cooperatives on good terms; and in some cases providing low interest loans directly to cooperatives to support expansion of their business.

- The capacity of cooperatives is also key constraint. Many cooperatives suffer from weak management, governance and business skills. Profitable cooperatives invariably function as demand driven and market oriented businesses which invest in quality management and business development.
- Elite capture and male domination are common problems. Strengthening cooperatives' capacity with regard to governance and inclusiveness is therefore critical. In some African countries, 30% of cooperative board seats are reserved for women.
- Many cooperatives struggle to scale up their activities and expand market access, due to weak capacity, poor access to finance, and lack of information and linkages. Support to networking can help – both within country and through regional and North-South links.

Develtere, P., Pollett, I., and Wanyama, F., (eds), 2008, 'Renaissance of African Cooperatives in the 21st century - Lessons from the Field', Chapter 2 in Cooperating out of poverty: The renaissance of the African cooperative movement,
http://www.ica.coop/outofpoverty/regions.html

This book chapter draws on extensive country case study material to discuss the historical development and current status of cooperatives in Africa; including issues of management, membership, relationships with government, and other factors contributing to their relative success or failure. It is observed that most cooperatives have not been able to help members break out of mere subsistence, but some success has come where the social capital of cooperatives extends beyond the group of the poor. Hence, 'the relative success of some Jua Kali ("hot sun") cooperatives in Kenya, the shoe shiners' cooperative in Uganda and the Young Christian Workers' cooperatives in Rwanda is related to the fact that some not-so-poor members adhere to and invest in these cooperatives' (p.16) The authors observe that yearly membership fees can prevent the very poorest from participating. Also, most cooperatives are initiated, composed and dominated by men.

Factors associated with the success of cooperatives in Africa include:

- Successful cooperatives are locally **embedded voluntary associations**. Members have a group identity and participate in the associative life of the cooperative. They are part of the social economy.
- It is generally accepted that **homogeneity of interests** is a crucial factor in the social

dynamics of the groups involved in cooperatives.

- Frequent contacts and interactions among and between members, management and directors is essential for enhancing trust and loyalty. Investment in member-relations management is important. Similarly, successful cooperatives **purposely increase collaboration** with other cooperatives rather than developing in isolation or limiting working relations to one particular partner (p.20).
- Successful cooperatives are **results-oriented** and creative in finding solutions to the daily problems of the members.
- Profitable cooperatives invariably function as **demand-driven and market-oriented businesses** with market niches and marketable products. They invest in quality management, and their pricing as well as interest rate policies are inspired by the prevailing market conditions (rather than an altruistic rationale).
- The experience of the Githunguri Dairy Farmers Cooperative Society demonstrates that an accommodative and cordial relationship with the local state bureaucracy is important for preventing government intrusion into the cooperative's operations.

The chapter briefly discusses the role of international donors in supporting cooperatives. Many agencies have opted for long-term working relations with a small number of cooperatives in lieu of short-term commitments to a broad range. A number of agencies (particularly in the North) show preference for a network and systems approach, which means fostering consensual networks among cooperatives and investing in adapting the policy, legal and fiscal environment in which their partner cooperatives have to operate. 'Nowadays, most agencies stress the fact that cooperatives have to be considered as private economic actors that have to make a surplus or profit. Emphasis is now more laid on issues such as financial management, solvency, profitability, financial sustainability, market penetration or return on investment. This more business-oriented approach also goes hand in hand with new support tools such as revolving loans funds, bank guarantees, loans or equity capital.' (p.25) For example, international support to the Githunguri Dairy Farmers Cooperative Society took the form of a low-interest loan, which helped the cooperative expand its operations considerably.

US Overseas Cooperative Development Council, 2007, 'Cooperatives: Pathways to Economic, Democratic and Social Development in the Global Economy', US Overseas Cooperative Development Council (OCDC), USAID, Washington
http://www.ocdc.coop/OCDC/CoopPathwaysReport.pdf

This paper discusses factors contributing to the success of cooperatives, noting that results in developing countries have been mixed; particularly where cooperatives have operated in extremely challenging environments (e.g. where there is a negative legacy); where cooperatives have previously been instruments of the state, or subject to tight state control or repression; or where cooperatives have been unable to rapidly gain scale through interlocking co-op networks. Despite these challenges, successful examples are: dairy cooperatives in India, with 12 million members; rural electric cooperatives in Bangladesh that serve approximately 28 million people; credit union movements in Ecuador and Kenya, both with over a million members; and Fair Trade-certified coffee cooperatives in Ethiopia, Rwanda, East Timor, and Central America that link thousands of smallholder farmers directly into global markets with premium coffee prices.

Cooperatives help economically by improving incomes and creating value and investment opportunity along product supply chains in today's global economy; democratically by providing firsthand experience with democratic governance, transparency and member participation; and socially by increasing trust and solidarity, leading to stability in the face of adversity and conflict. Case studies from India, Bangladesh, Philippines and Argentina demonstrate how cooperatives can stimulate competition by generating economies of scale; open up access to information through better market networks; help reduce barriers to market entry through the pooling of resources and improve individual bargaining power through collective action. Efforts to increase the inclusion and democratic participation of women can make a significant impact (e.g. the case of India, the Women's Dairy Cooperative Leadership Program (p.19)). Cooperatives can also contribute to recovery from conflict (e.g. Bosnia and Herzegovina), in bridging ethnic, religious and political divides (e.g. in India, the dairy cooperative movement), and in drawing together different linguistic, caste, religious and political groups. Moreover, cooperatives have been successfully used for health campaigns. For example, in India, where family planning was rolled out through cooperative networks of women who already had strong social ties and participated within efficient management systems. Another example is HIV awareness in Ethiopia supported by USAID.

The paper notes that success factors for cooperatives include:

- ‘Laws and policies that are favourable
- An economy that permits all types of competitive businesses
- Membership that is open to users (some have limitations on membership)
- Equity from the first day of operations and principally from members
- High equity/debt ratio
- Member-centred services
- Board of directors elected by and from members only (no government representatives)
- Organization around a resource base and service sufficient to sustain the cooperative as a viable business
- Professional management
- Access to markets
- Accountability of all employees to the cooperative (no seconded personnel)
- Management training

- Membership education
- Willingness to use modern technology' (p.26).

Chapter VI (p.26) discusses approaches to overcoming some of the main obstacles to the success of cooperatives:

- **Creating an enabling legal and regulatory environment**: Viable cooperative businesses must operate on the basis of sound commercial principles and a level playing field (there should be no pricing and market limitations on cooperatives; they should not be used as providers of government services without recovering the full costs). The legal environment must protect democratic member control; autonomy and independence; voluntary membership; and economic participation in cooperatives. It should promote equitable treatment of cooperatives as other businesses in the same sector. It should promote access to markets.
- **Accessing markets (local, regional and global)**: Cooperatives have failed without a market-driven approach that allows them to compete. It has been essential for cooperatives to attain competitive advantage through professional management, operational and financial efficiency, high quality products, and competitive pricing. This has been greatly assisted by the Fair Trade Movement. In Rwanda, US technical assistance helped two cooperatives qualify for Fair Trade which greatly increased their profits.
- **Moving from government to member control**: Emerging from domination by repressive government has been a major challenge in many developing countries. In Ethiopia, US technical assistance has helped carry out plans to privatize business and industry by assisting agricultural cooperatives in becoming farmer-owned and farmer-controlled, profitable and governed in a democratic fashion.
- **Reaching scale and emerging from dependency**: cooperatives must take steps to achieve scale. In developing country settings, cooperatives have suffered from small economic scale, a characteristic that has also inhibited their capacity to address other obstacles to their evolutionary growth as independent businesses.

US Overseas Cooperative Development Council, 2009, 'Measuring Cooperative Success: New Challenges and Opportunities in Low and Middle Income Countries', US Overseas Cooperative Development Council (OCDC), USAID, Washington
http://www.ocdc.coop/OCDC/PUB_metrics.pdf

This report presents a framework of indicators of cooperative success, ways of measuring those indicators, and a means of diagnosing basic sources of cooperative failure aimed at helping governments, co-operative managers and development agencies to evaluate and support the activities of individual cooperatives. It argues that to be effective, cooperatives need:

- **Sound business practices**: Cooperatives are grounded by sound business practices they establish and follow to efficiently provide services to their members. At early stages of development, cooperatives may have embryonic accounting and management systems, and measurements should be few and simple. They must look not only at profitability, as measured by the profit and loss statement, but also at sustainability as represented by the balance sheet.
- **Strong membership participation**: The cooperative is concerned with increasing, holding and benefiting from membership and responding to the needs of its members. This fills both an important business purpose — tapping the local knowledge and commitment of its members — and the social purposes of providing members with a sense of inclusion, participation and community, and the ability to decide what services are offered.
- **Support of an efficient apex organization(s) that provide oversight and services**: To achieve national importance, cooperatives not only need to multiply but also receive services that take advantage of economies of scale. It is critical that apex institutions arise to render these services.
- **Facilitating economic and legal environment**: This includes economic conditions favourable to profitability, and a regulatory system favourable to business success and expansion.

Supporting legal reform

USAID, 2006, 'Enabling Cooperative Development: Principles for Legal Reform', USAID Cooperative Law and Regulation Initiative (CLARITY)
http://www.acdivoca.org/852571DC00681414/Lookup/EnablingCooperativeDevelopmentPrinciplesforLegalReform-CLARITYReport/$file/EnablingCooperativeDevelopmentPrinciplesforLegalReform-CLARITYReport.pdf

This paper presents the CLARITY principles for cooperative law and regulation and provides guidance on their implementation. The report also presents case studies of cooperative law reform from around the world. The clarity principles are:

- **Respect voluntary membership**: Law must protect the voluntary nature of membership in cooperatives; membership in cooperatives should be determined by each cooperative, not mandated by law or government order.
- **Require member economic participation**: Law must protect and promote the responsibilities of membership, including the duties to contribute equitably to and democratically control the capital of the cooperative.
- **Promote equitable treatment**: Law and regulation should be no less advantageous to cooperatives than to other businesses in the same sector, while protecting and being sensitive to the mutuality of cooperatives. Incorporation, law enforcement, dispute resolution, and

licensing of cooperatives should be handled in the same manner as for other businesses.

- **Promote access to markets**: Sector-specific regulations should provide reasonable accommodations and incentives, where appropriate, that enable cooperative forms of business to operate.
- **Provide coherent and efficient regulatory framework**: Regulatory frameworks should be simple, predictable, and efficient; should minimize bureaucratic delay and obstructions to business operation; and should avoid conflict and duplication of other laws.
- **Protect due process**: Cooperative organizations and their members should be accorded due process of law, including applicable rights to hearings, representation, and impartial appeals for decisions of the state that impact cooperatives or their members.
- **Avoid conflicts of interest**: The role of the state in law enforcement, dispute resolution, license, and promotion should be administered in a manner that avoids duplication, undue influence, and minimizes conflicts of interest.

For further guidance on implementing the CLARITY principles, see:
US Overseas Cooperative Development Council, 2009, 'Creating Clarity: Assessment, Analysis and Outreach for Cooperative Legal Reform', US Overseas Cooperative Development Council (OCDC), USAID, Washington
http://www.ocdc.coop/OCDC/publications.html

Case studies

Assefa, T., 2007, 'Revitalizing Market-Oriented Agricultural Cooperatives in Ethiopia: A Case Study Conducted In Cooperation with USAID's Cooperative Development Program', USAID
http://www.acdivocacoopex.org/acdivoca/CoopLib.nsf/35d0f140112b2c7e8525682a007811b0/8EE899EF07736E7285256F8D005448A4/$FILE/Final+Eth.pdf

This report argues Ethiopia is as an example of how socialist cooperative societies designed to serve solely the interests of the government can be successfully rehabilitated and revitalized as market-oriented private business organizations. The case study compares the growth and progress of the Kolba Farmers' Multi-Purpose Primary Cooperative and the Lumme-Adama Farmers' Cooperative Union as a result of two ACDI/VOCA development assistance projects: 1) The Cooperative Union Project (CUP), a two-year program (1998-1999) with the goal of enhancing food security and rural income, and; 2) Agricultural Cooperative Development in Ethiopia (ACE), an extension and expansion of CUP (2000-2004) with major components expanding the participation of women, diversification of cooperative businesses, natural resources management, and an HIV/AIDS intervention. The success of these interventions is attributed to:

- **Democratic participation**: Farmer members at the grassroots level freely and democratically elect their leaders without government intervention.

- **Salience**: By giving ownership of the project to the cooperatives, the Cooperative Promotion Bureau (COPB) and ACDI/VOCA have promoted sustainability.
- **Growing professionalism**: This case study illustrates the success of cooperatives in managing their businesses efficiently and effectively.
- **Access to credit**: Through the Loan Guarantee Fund, which has been supported by USAID and the visionary Bank of Abyssinia, cooperatives have been able to access credit and have demonstrated their creditworthiness.
- **Change strategies**: Several interventions were critical: (1) organizational changes were required including hiring of professional managers to manage the unions, training board members and managers for their duties, and training controllers to conduct regular control; (2) cooperatives learned to operate as businesses in which membership is voluntary and based on profits and incentives such as patronage dividends; (3) cooperatives needed to become creditworthy; and (4) savings and credit services needed to be institutionalized through the establishment of rural SACCOs so that local savings could be mobilized, and primary cooperatives as members of SACCOs could borrow working capital for grain purchases - a major breakthrough in rural finance.

Additional information

This report builds on an earlier GSDRC Helpdesk Report entitled *'Lessons learned in supporting cooperatives'*, written for DFID in 2008. See: http://www.gsdrc.org/go/display&type=Helpdesk&id=476

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Websites visited

Committee for the Promotion and Advancement of Cooperatives (COPAC), International Cooperative Alliance (ICA), Sciencedirect, The Cooperative College: Cooperatives for Development, US Overseas Cooperative Development Council (OCDC): ILO: CoopAFRICA, Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), USAID: Cooperative Development Program, UN, UNAIDS, Google, The Cooperative Facility for Africa - CoopAfrica

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