

Social protection and Economic Development Through Co-operative

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Social protections as defined by the United Nations research institute for social development, is concerned with preventing, managing & overcoming situations that adversely affect people's wellbeing. Economic development means progress in an economy, or the qualitative measure of this. Economic development usually refers to the adoption of new technologies, transition from agriculture- based to industry –based economy, and general improvement of living standards. Economic development can also be referred to as the quantitative and qualitative changes in the economy. These two issues are interdependent. Economic development can supplement for the improvement of social protection. On the other hand achieving social securities economic development become sustained.

A cooperative is a group-based and member-owned business and can be formed for economic and social development in any sector. The International Cooperative Alliance defines 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."* Ownership and control by members, who usually have one vote per person, is a key aspect of cooperatives. This paper makes the case that cooperatives can play the same catalytic role, and make the same contributions to economic growth and social advancement, in the developing world like Bangladesh. Cooperatives can help push forward the conditions that create a positive environment for that investment. The central position of this paper is that cooperatives make an instrumental contribution to transformational international development via three primary pathways:

- 1) Economic Pathway – alleviating poverty; stimulating economic growth;
- 2) Democratic Pathway – providing a framework for democratic participation; and
- 3) Social Pathway – building social capital and trust (including prior to and after conflict); bridging ethnic, religious and political divides; and providing social services.

Throughout the developed world, cooperatives have been, and continue to be, a significant economic force. In many countries co-ops are among the largest major enterprises in diverse fields of agricultural marketing, savings and credit, insurance, information/communications technologies (ICTs) and housing. In developing countries results have been mixed, particularly where cooperatives have operated in extremely challenging environments, been instruments of the state, or unable to rapidly gain scale through interlocking co-op networks.

I. THE CONTEMPORARY CONTEXT

A. Resurgence of Cooperatives in a Changing Global Economy

Cooperatives in developing countries are in resurgence due to several factors: abandonment of socialist planned economies in favor of economic liberalization; globalization of markets; the emergence of the Fair Trade movement; a rising call for democratization and social inclusion; the failure of the socialist co-op model; and the demise of marketing boards. They are also growing in number because government decentralization and privatization have made space for non-state sectors and group businesses that can serve public and private interests; or, conversely, when privatization fails less profitable areas, communities organize to meet their own needs through cooperative action. Many developing countries have abandoned planned economies with administered pricing and protective import policies in favor of "liberalization," or adoption of market-oriented policies. Market economies presume a "level playing field" – relative equality among participants with respect to assets, information, skill and opportunity. Where that does not exist, however, exploitation by powerful players who control a disproportionate amount of assets can occur. Only by aggregating their resources can the less prosperous producers and consumers achieve some degree of competitiveness in the market. Cooperatives have arisen for this purpose since the 1800s. Operating in a global economy has pushed smallholder farmers to meet quality standards, compete on price, and/or achieve sufficient volumes for export. Cooperatives are an organizing tool that can enable these producers (often of highly perishable and labor-intensive products) to be competitive and reach new and distant markets. The Fair Trade movement is rapidly becoming mainstream around the world.

Over 65 producer co-ops in some 25 countries are certified Fair Trade – producers are provided with guaranteed prices, middlemen are eliminated and consumers assured that their money reaches poor farmers. The demise of the socialist, “top-down” collectives in the former Soviet Bloc has resulted in a revival of free-market cooperatives. Socialist cooperatives in Eastern Europe and Russia were either dissolved as repressive organizations, or reformed such as in Poland. The growth of supermarkets in many developing countries is fueling demand. For example, market-oriented, member-owned co-ops are rapidly growing to provide vegetables to fast-growing supermarkets in Ukraine. Electric cooperatives are being re-examined by developing countries and major donors as a model of community self help and decentralization of former publicly owned services. The ideological bloom of utility privatization is wearing off as governments and residents of rural communities realize that commercial firms are unwilling to serve rural areas for little or no profit. The same is true in the information and communications technology (ICT) sector. Even with recent trends of sector privatization, and the explosion of new services and markets, many less profitable and rural communities around the world remain underserved. While ICT cooperatives are playing a crucial role in U.S. rural development, as well as in countries like Canada, Finland and the Netherlands, they are also active in transitioning and developing countries in Eastern Europe, Latin America, Africa and Asia. Marketing boards and government controlled companies across the globe are being privatized, especially in the dairy sectors. Small dairy co-ops are rapidly growing in India, Bangladesh, Eastern Europe, Latin America and Africa to provide raw milk to privately owned dairies. A major resurgence of private co-ops is occurring in countries such as Ethiopia and Honduras, where agricultural co-ops participate in direct marketing and in formerly closed auctions for exporting. In the housing sector, as government-owned housing has increasingly privatized over the past decade, cooperatives have proven to be a sustainable way for residents to own and maintain their own homes. In Bangladesh more than 100 housing co-operatives provided housing facility for 31,000 members of their society. Governments in South Africa and Philippines, for instance, have partnered with private housing cooperatives and commercial banks to finance the construction of new affordable housing. Meanwhile, in countries such as Slovakia, residents are pooling their capital in private cooperative lending arrangements to finance housing purchases and upgrades.

II. THE COOPERATIVE ADVANTAGE

In any discussion of the advantages of the cooperative business model, particularly in an international development context, it is important at the outset to clarify what a cooperative *is* and what a cooperative *is not*. Much of the negative legacy carried by cooperative development is a result of labeling a parasitical, or even a nonprofit charitable organization, as a cooperative. A cooperative is a group-based and member-owned business and can be formed for economic and social development in any sector.

- *User-controlled* – an elected Board of Directors serves as the link between the membership and the manager; and
- *User-benefited* – members profit when patronage refunds are returned to members based on the amount of business conducted with the cooperative. *A cooperative is not a typical investor-owned corporation.* Although cooperatives are private sector corporations, they differ from typical investor-owned corporations by being user-owned, user-centered and user-controlled. Owner value arises from patronage, not appreciation of equity. In an investor-owned corporation, shareholders own the corporation. The corporation’s purpose is to earn financial returns for shareholders and shareholder control is proportionate to equity holdings. Investor-owned corporations return revenues to investors proportionate to their “investment” or ownership share and typically raise money through capital markets. In the case of a cooperative, the user-owned principle signifies that the users finance the cooperative to benefit through their patronage. User-controlled means that boards are elected by the members – usually on the basis of one person, one vote – linking membership and management. User-centered means members profit from the cooperative, as surpluses are returned to members as patronage refunds based on the proportion of business each member conducts with the cooperative. User-ownership reflects the fundamental identity between owner and user, a key element in sustaining loyalty to the cooperative. *A cooperative is not a typical nonprofit organization.* A nonprofit organization serves others outside of the organization, either directly or often through advocacy work on their behalf. Nonprofits usually raise money through public donations, grants and contracts and may earn some money from services. A cooperative is, however, not-for-profit – unlike the situation in a for-profit corporation, surplus revenue is either divided among the members or invested in the growth of the cooperative.

B. Cooperative Principles and Values

Seven cooperative principles were adopted the 1966 to guide cooperative organizations into the 21st Century.

Cooperative Principles:

- 1. Voluntary, Open Membership:** Open to all without gender, social, racial, political or religious discrimination.
- 2. Democratic Member Control:** One member, one vote.
- 3. Member Economic Participation:** Members contribute equitably to, and democratically control, the capital of the cooperative. Economic benefits are returned to members, reinvested in the co-op or used to provide member services.
- 4. Autonomy and Independence:** Cooperatives are autonomous, self-help organizations controlled by their members.
- 5. Education, Training and Information:** Cooperatives provide education and training so members can contribute to the development of their cooperatives and inform others about the benefits of cooperation.
- 6. Cooperation Among Cooperatives:** Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, regional, national and international structures.
- 7. Concern for the Community:** Working together for sustainable community development through policies accepted by members.

Cooperative Values:

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

C. The Global Face of Cooperatives: Transforming Economies Worldwide

Estimates of the number of cooperatives and their impacts on the world economy vary widely, but their impact is extensive. It is estimated that approximately 800 million people worldwide are members of cooperatives, and another 100 million are employed by cooperatives. In Bangladesh about 02 Lac co-operative societies including more than 01 core members are working for their better livelihood. Nearly all farmers in Japan and South Korea are members of agricultural cooperatives, and some of the largest insurance companies and banks there are cooperatively owned. Rabobank is the only privately-owned bank in the world with the highest possible credit ratings from both Standard & Poor's (AAA) and Moody's Investor Service (Aaa), and is ranked the world's third safest bank by Global Finance magazine. It is the largest agricultural bank in the world. Owned by Dutch farmer co-operators, Rabobank specializes in agricultural lending. Cooperatives in nearly every developed country have been major contributors to economic growth and poverty alleviation. Cooperatives are sustainable institutions with impressive survival and growth statistics. For example, in Quebec, cooperatives have a 65 percent survival rate compared to less than 5 percent for traditional businesses within the first five years, and a 46 percent rate of success compared to 20 percent of traditional businesses after ten years. Since World War II, cooperative-based organizations in Europe, the U.S. and Canada have been champions of cooperative development, promoting overseas cooperatives in many countries. Through United Nations resolutions and the work of the International Labor Organization (ILO), there are now worldwide standards and principles for cooperatives that emphasize their autonomy, self-help nature and member ownership and control. These efforts have led to cooperative reforms in many developing countries, including many spurred by World Bank sector loans requiring divestiture of state enterprises and marketing boards. The International Cooperative Alliance, formed in 1895, represents some 230 member organizations in 100 countries

D. Pathways Out of Poverty in the Developing World

The route out of poverty via transformational development has three pathways and cooperatives are unique in addressing all three simultaneously:

- **The Economic Pathway** – Economically, the cooperative business model has helped millions of low-income developing country individuals improve their incomes. Co-ops are institutions of choice to bring economic opportunity to underserved areas. Remote, rural regions, where most poor people live, tend to be less profitable for other forms of enterprises and unattractive to investors because of scattered and low levels of production, high transaction costs and long distances to market. Cooperatives allow entrepreneurs to overcome many of the market barriers that exist in developing countries. Over time, areas can be transformed when members invest in: agricultural cooperatives to lower the costs of farming inputs and improve marketing; credit and saving cooperatives to reach lower-income groups than commercial banks; insurance cooperatives to protect assets of

low-income people; and rural electric, health, telecommunications and housing cooperatives to provide community services to the underserved;

- **The Democratic Pathway** – Democratically, co-op members learn firsthand the principles of democratic governance, transparency and member participation. Cooperative membership gives subsistence producers and other impoverished people a voice and a chance to take charge of their destinies. This experience provides a sense of ownership of the local political process; it sets an example of organizational efficiency, transparency and accountability; and it creates a practical vehicle for conflict management through jointly vested interests. Skills and analytical abilities that accrue at the level of the local cooperative subsequently spill over to all areas of the body politic – they are applicable at the second tier co-op level, in the law courts, in national organizations and at the election hasting and

- **The Social Pathway** – Socially, co-ops increase trust and solidarity, leading to social well being and stability, in some cases in the face of adverse conditions and conflict. Through development programs, cooperative members learn the relationship between serving their own needs and the viability of organizations. They develop as people by receiving training in leadership, organizational and financial management, member services and advocacy. They develop social capital and trust in their communities and learn how to bring critical social services to their communities. The following provides an updated view of the accomplishments and long-term potential of cooperatives in the contemporary development environment where economic democratic and social transformation is the goal.

III. THE ECONOMIC PATHWAY: Alleviating Poverty; Stimulating Economic Growth

“Founded on the principles of private initiative, entrepreneurship and self-employment, underpinned by the values of democracy, equality and solidarity, the cooperative movement can help pave the way to a more just and inclusive economic order.”

A. Creating Economic Opportunity

Poverty impedes overall economic growth and, unless the constraints affecting the poor are addressed in developing countries like Bangladesh broad-based economic growth will not occur. In a global economy, these countries need to fight poverty more aggressively than ever, especially if they expect to grow and compete with China or India. In developing and transitional economies, cooperatives help adjust for the market imperfections that normally would impede the vast majority of private sector actors (particularly those from traditionally marginalized areas) from fully competing in the domestic or global economies. Such market failures include: imperfect competition (particularly that caused by the presence of monopolies or oligopolies such as state-owned enterprises), asymmetric information, and high barriers to entry (e.g. establishing utilities or telephone services). In countries experiencing political and economic transformation, government reform efforts have not yet had sufficient time or resources to adjust for these failures. Meanwhile, cooperative enterprises 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. Worldwide, people create economic opportunity and exert control over their destinies through membership in various types of cooperatives. Co-ops allow individuals to achieve mutual economic goals, from the local to the global level, that cannot be met in isolation. Opening up the developing world to this type of economic opportunity is not only the key to alleviating poverty, but to broader global security.

B. Economic Impact of Cooperatives: Examples by Sector

To invest in cooperative development is to invest in creating or strengthening sustainable businesses that have the potential for large scale impact when it comes to lifting households out of poverty, providing services to the underserved and protecting the economic assets of the poor. The following section illustrates how co-ops have had very significant economic impact in developing countries in various sectors. It discusses how they provide:

- 1) Legitimate livelihoods in agricultural economies;
- 2) Communication services for businesses and communities in hard-to-reach areas;
- 3) Rural electrification that brings large-scale economic growth to the underserved;
- 4) Financial services that mobilize savings encourage asset accumulation and make loans to Poor and low-income households;

- 5) Access to affordable housing and community services;
- 6) Insurance protection for the assets of low income households; and
- 7) Economic opportunities for youth.

1. Agricultural Cooperatives

According to the World Bank, food demand will double by 2030 as the world population increases by an additional two billion people. The increase in food demand will come mostly from developing countries. As Kevin Cleaver, former Director of Agriculture and Rural Development at the World Bank, and currently serving as IFAD's Assistant President of Programme Management, has noted: "About 60 percent of the extra food to meet the increasing demand will come from irrigated agriculture. At the same time, we face the challenges of increasing farmer incomes, reducing rural poverty and protecting the environment, all from an increasingly constrained natural resource base." Because three-quarters of the poor in developing nations live in rural areas and derive their livelihoods from agriculture or related activities, lifting people out of poverty is highly dependent on what happens in the agriculture sector. Mellor emphasizes that, when rapid overall growth is accompanied by rapid growth of the agricultural sector, there is a tendency to generalize that economic growth reduces poverty. In fact, it is the direct and indirect effects of agricultural growth that account for virtually all of the poverty decline. Rapid agricultural growth requires substantial public investment specific to the agriculture sector. In Developing country agricultural co-ops: 1) help smallholder farmers achieve better access to inputs, equipment and markets; 2) improve food security in both rural and urban settings; 3) raise incomes; and 4) power overall economic growth. This then enables farmers to improve housing, pay school fees, maintain their health and enhance their overall welfare. This progress, in turn, broadens the options for the next generation of co-op members. Prosperity, knowledge gains and resource expansion associated with cooperative-based agricultural development reinforce the principle of collective action and encourage those who benefit from it to intensify their commitment and accept further challenges and changes. At the most fundamental level, when people move from subsistence to sufficiency they have the security, resources and motivation to contribute to the development of civil society. There are several classes of agricultural co-ops, including production cooperatives, marketing cooperatives and purchasing cooperatives, that provide input, processing and marketing services to members. Production co-ops help smallholder farmers band together to achieve greater profits and add value to their products. Marketing co-ops help producers market their production. They may act as bargaining associations without taking actual control of products, or they may provide a full spectrum of services including input supplies, grading, processing, packaging and marketing. Purchasing co-ops provide members with dependable supplies at competitive prices through bulk purchasing. Service co-ops provide a wide range of services such as artificial insemination, milk testing, cotton ginning, trucking, crop drying and livestock shipping (e.g., farm machinery equipment co-ops in Jordan).²⁸ Cooperatives may also be classified as single purpose or multi-purpose, specializing in a single activity (e.g., input supply) or providing many services such as credit, supplies, consumer goods, insurance and other services.²⁹ It is not possible to summarize the full impact of agricultural co-ops, given their diversity. However, they exist in nearly every country, and in many countries co-ops serve the largest number of producers in crops such as rice, maize and sorghum; fruits and vegetables, and livestock. **Bangladesh Milk Producers Co-operative Union known as Milk Vita** offers an example of the potential scale of the impact of cooperatives in bringing grassroots farmers out of poverty and connecting them with markets. Milk Vita was established in 1973 to help grassroots Bangladeshi milk producers reach markets and obtain inputs and services. Its creation was rooted in Bangladesh's recognition that its progress lies largely in the development of rural area. Dairy industry of Bangladesh by placing dairy development in the hands of milk producers and the professionals they employ to manage their cooperatives. In addition, the board promotes other commodity-based cooperatives, allied industries and veterinary biological on a nationwide basis. Today, Bangladesh's 1900 dairy cooperatives procure an average of 02 lack liters of milk from more than 01 Lack farmer cooperators every day. The milk is processed and marketed by 33 milk producers' plant.

2. Information and Communications Technology (ICT) Cooperatives

ICT co-ops support business development, attract investment, and contribute to community development in hard to-reach areas. In the United States, telephone cooperatives expanded rapidly after World War II, due to the availability of low-interest capital through the Rural Electrification Administration (now Rural Utility Service) and other universal service support policies that precipitated a sharp growth in small, independent telephone systems in rural areas.

3. Electric Services Cooperatives

“Current forecasts are that, 30 years from now, there will still be 1.4 billion people without electricity and there will still be many businesses which lack sufficient and reliable energy services that could be providing jobs for the poor. A lack of energy also affects basic human needs like education and disease prevention”. In **Bangladesh** by using co-operative approach there are approximately 70 “Palli Biddut Samity” now serve 28 million people. A recent study of the economic impacts in Bangladesh credited the electric cooperatives with creating 3 million new jobs, representing 17 percent of household income. Electric pump irrigation alone increased crop yields by 24 percent. Child mortality rates are 35 percent lower in electrified homes and women are able to engage in a wide range of income earning activities.

4. Financial Services Cooperatives

a) Credit Unions

Credit unions (savings and credit co-ops) are formal, user owned financial institutions that offer savings, credit, insurance and transaction services (including shared branching, ATM services, and remittance transfers) to members. Credit unions are legally authorized to mobilize deposits. Echoing earlier informal savings and credit associations – often formed for a limited period to help members through a difficult time – credit unions offer a mechanism for mobilizing savings from within a defined community in order to encourage asset accumulation and make available loan funds. As financial intermediaries, credit unions must be internally stable and solvent, able to protect member deposits, independent of external credit. Credit unions must balance the needs of net-savers (safe and secure savings, liquidity, return) and net-borrowers (access to loans, non-usurious rates). Credit unions meet both personal and business needs of members, so they do not provide targeted lending that is often diverted to meet family needs (upwards to 40 percent of most credit union loans are for productive enterprise purposes, compared to personal needs).

In **Bangladesh**, credit unions provide financial services to poor and low-income households on a mass scale focusing on increasing outreach and improving financial performance. Co-operative credit union league of Bangladesh (CULB), is functioning as a central society including 753 primary societies and 4,45,000 individual members. These credit unions increased & mobilized savings up to taka 15 billion.

b) Comprehensive Village Development Cooperatives

Another model that brings loans, financial services & other village development work including human resource development are conducting by the Comprehensive Village Development Cooperatives. Where 4275 Village development co-operatives are based on a model that builds assets and equity through the savings of its members. More than 100 core working capital formation by these cooperatives as a financial institutions that build assets and equity through member contributions.

5. Housing and Community Cooperatives

Cooperative institutions comprise a notable part of the housing sector, particularly in countries where poor regulatory systems and/or underdeveloped financial markets inhibit the majority of residents from accessing affordable housing and housing-related services through conventional means. Housing cooperatives are frequently used as an instrument to increase the affordability of housing for low- and moderate- income families. In Bangladesh more than 100 housing cooperatives has ensured 30,889 members of their housing facilities. Also in village area 1354 “**Asrayon**” co-operatives provide almost two lack homeless people.

6. Insurance Services Cooperatives

Low-income households with limited or no financial safety nets are especially vulnerable to falling below the poverty line as a result of death, disability or sickness of a primary breadwinner. Costs associated with health problems are frequently the single largest reason for people falling back into poverty.⁵⁵ Insurance co-ops are an effective way to protect the assets of the poor. Yet, those with the greatest need are least able to afford insurance protection and have the least access to insurance services. Of the four billion people in the world today who live on less than two dollars a day, fewer than 10 million (one-quarter of one percent) have access to insurance. In developing countries, the largest potential markets for insurance products are the low-to middle-income markets, but they are underserved by commercial insurers who perceive them to be unprofitable. Conventional insurance products are neither designed to meet their needs nor priced within their means. Even a small amount of insurance coverage can go a long way for low-income families. Insurance co-ops were created to fill this important need by cooperatives, unions and other large groups who had no access to affordable insurance. Many insurance co-ops (including most in Latin America) originated from credit union federations, where members’ savings and loans were insured against death of the policy holder. They subsequently expanded to offer other

types of insurance (property, funeral, health, etc.) and serve greater numbers of low-income individuals and small businesses. Today, cooperative insurers are among the largest life insurers in developing countries. In **Guatemala**, for example, **Columna Compañía de Seguros** insures over 800,000 people, representing more than 90 percent of the total Guatemalan insurance market. In Bangladesh there are 674 primary general insurance cooperative society & 480 life insurance cooperative society including about 1 core share capital.

7. Youth Cooperatives

Youth cooperatives can play an integral role in developing countries' overall economic development plans, especially as developing countries look to provide sustainable economic livelihoods for the unprecedented number of youth about to enter the labor force. According to the World Bank, the 1.1 billion people that are today between the ages of 15 and 24 represent the largest cohort ever to enter the transition to adulthood. What is more, these numbers have not reached their highest level. By 2015, there will be 3 billion young people in the world, with 2.5 billion living in developing countries. In Africa and South Asia, for example, children and youth make up more than 60 percent of the total population. One of every four young people under the age of 25 lives in poverty. Many developing countries with the highest youth unemployment rates are also those with the most crime, violence and political instability. In transitional economies, the absence of a comprehensive youth employment plan is often the missing link in creating a growing economy for the future. Cooperatives present an opportunity for young people to gain legitimate employment. Youth are also drawn to the values and principles of the co-op movement. Within the co-op structure, young people can start their own businesses by working together, even if they only have access to small amounts of capital. In **South Africa**, a country with youth unemployment at over 60 percent, young people of Bangladesh already formed 3,569 numbers of cooperative society including 1,30,431 members get training & working for self employment.

IV. THE DEMOCRATIC PATHWAY: Providing a Framework for Democratic Participation

In an increasingly globalizes world, cooperative organizations are needed more than ever, as a balance to corporate power and as an anchor to the grassroots level of society. Cooperatives hold the potential of being a driving force in our partner countries in the developing world, provided they can operate in a democratic environment. For the poor around the world, cooperatives can provide a much needed opportunity for self-determination and empowerment.

Democratically, cooperatives are vehicles for broad democratization and empowerment in developing countries: they instill basic democratic values and methods; foster self-reliance through collective action; and shape relationships between institutions and civil society that encourage participation and conflict management. The resulting framework is the foundation for a more secure society and for economic growth. Successful cooperatives promote democratic values by instilling:

- Democratic member control (one member, one vote);
- Participatory management practices;
- Transparency in decision-making and financial accountability;
- Devolution of power; and
- Collective action and bargaining power.

C. Women's Democratic Participation

Women play a primary economic role in developing countries but usually do not have the opportunity for democratic participation in institutions which impact their economic potential. In Africa, for example, women account for up to 80 per cent of food production, but have not historically had access to the training, technology, credit and institutional involvement adequate to increase their productivity. The world over, women's participation in institutions (including cooperatives) has traditionally been low and has only recently begun to expand. This is particularly true in agricultural cooperatives. Cultural constraints, household obligations, land ownership requirements and lack of financial resources are commonly cited as reasons. The contribution of women to the economic transformation of poor, remote villages in developing countries is instrumental. If they are left out of co-ops, or excluded from meaningful democratic participation, they cannot influence decisions that may ultimately impact them greatly. Democratic development calls for the informed participation of all economic actors, including women. The International Cooperative Alliance has recognized that, in order for women's rights to be guaranteed, it is essential that: 1) women's needs, skills and resources be acknowledged; 2) constitutions, laws and civic and labor codes be revised to eliminate the legal basis for discrimination; 3) legal protection be provided for women's

access to land ownership, credit, basic education, training, health, childcare facilities and other social services necessary for the full integration of women into the development process; and 4) loan programs be provided.⁶⁷ When countries make a concerted effort to acknowledge the contribution of women, and support their inclusion and democratic participation in cooperatives, the impact can be significant. In the case of **Bangladesh** there are 27,873 women's cooperative facilitated 1 million women's member for their better livelihood.

V. THE SOCIAL PATHWAY: Building Social Capital and Trust

"There are other, more general benefits of co-ops to which it is impossible to attach a monetary value. One is, no doubt, the establishment and strengthening of ties of friendship and partnerships among members. At an even more general level, the formation of a cooperative is one of those human activities that bring their own reward. For many groups, the fact of joining forces, be it even for a modest purpose, such as setting up a cooperative consumer store, has a great deal of symbolic value. It is an act of self-affirmation that fills people with pride and may even be felt as a beginning of liberation, particularly by long-suffering and long-oppressed groups"

a) Building Social Capital

Social capital is a popular topic in contemporary development parlance, particularly in discussions of civil society and the impacts of globalization on local communities. According to the World Bank, the social capital of a society includes "the institutions, relationships, attitudes and values that govern interactions among people and contribute to economic and social development. It includes the shared values and rules for social conduct expressed in personal relationships, trust and a common sense of civic responsibility that makes a society more than a collection of individuals." The term social capital puts the commonly used term "social fabric" on a par with other forms of capital such as financial capital, physical capital and human capital. Social capital shapes the quality and quantity of a society's social interactions. It is the "glue" that holds institutions together. Social capital is a stock of social trust, norms and networks to draw upon for problem solving. While the value of building social capital may be difficult to quantify, increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable.⁷¹ Studies have shown that societies with strong social capital tend to do well economically and can reduce their poverty levels. When cooperatives are involved, achieving social goals is highly compatible with achieving economic goals. In **Bangladesh**, rural electric cooperatives are a significant part of the rural civil society. Cooperatives have become "best actors" of human governance, strengthened local governance, and ensured transparency and accountability in management and operations – a social development described by Dr. Abul Barkat and his colleagues in a study that noted: *"Because the poor have weak social networks and they are excluded from mechanisms that allow their voices to be heard....cooperatives can play an important role in building trust and norms for coordinated actions to extend people's freedom and to exercise choice by creating institutional structures that in turn create capabilities."*⁷⁴ The study observed that a typical community at the village level in Bangladesh has two temples and two mosques, but that the cooperatives bridged ethnic groups through common membership and multi-faith elected boards of directors. A survey of members found that 70 percent of respondents said that the cooperative board plays a useful role for its members, facilitates participation, empowers women by appointing them as bill assistants, helps consensus building among members with diverse opinions, accelerates accountability, fosters group spirit and helps achieve transparency.

b) Recovering from Conflict

Cooperatives help build "stakes in stability"⁸¹ by providing economic opportunities during and after conflict and by rebuilding the social capital and trust needed to provide a sense of collective identity and shared destiny. Throughout the world, in post-conflict settings such as Guatemala, Lebanon, Azerbaijan, and Serbia and Montenegro, cooperative organizations have brought citizens from different regions and backgrounds together to cooperate in pursuit of a common vision. They have successfully created jobs for returning minorities and ex-combatants to conflict regions, and have been particularly effective in creating new links to distant and high-value markets.

c) Bridging Ethnic, Religious and Political Divides

Ethnic, religious and political divides can lead to fragility and conflict in developing countries. Cooperatives have served as institutions that can successfully bridge these divides and achieve reconciliation along the fault lines of various social groups.

d) Providing Social Services

Developing countries characterized as "fragile" or "vulnerable" typically cannot assure the provision of basic services to significant portions of their populations. Cooperatives are institutions that can achieve greater outreach and equity in delivery of social services, especially compared to centralized, top-down models of service provision.

1. Public Services through Cooperatives

Community and consumer co-ops take myriad shapes and forms, including artisans, daycare centers, healthcare, water and wastewater treatment, groceries, retail, bookstores, and many other permutations. In most cases, community members band together to foster services for the group that would be otherwise unavailable to the individual, or better tailor services for the few by combining resources of the many. In the **Philippines, the Cooperative Daycare Center** in Toy has served preschool children whose parents would have been unable to afford caregivers on their own. The Riverside Cooperative in Bacolod has successfully stopped city residents from dumping trash in a river through a solid waste management project, resulting in improved household and community cleanliness, the elimination of odors, and the reduction of littering and improper waste dumping. In **South Africa, the Security Association** in Amalinda, Buffalo City, has trained members in prevention of theft and in safeguarding construction sites.

2. Healthcare Cooperatives

Health is a key determinant of economic growth in developing countries, and cooperatives can bring health care to those who would not otherwise be served. This has been recognized by the United Nations, which published a global survey of health and social care cooperatives in 1997. The survey showed the scope of the movement and noted the opportunities for expanded engagement of the cooperative movement to providing high quality health services at reasonable cost. Health cooperatives can take a variety of forms. User- or client-owned health cooperatives are established, owned and controlled by their members in order to secure effective and affordable health insurance and services. Provider-owned health cooperatives are controlled by groups of health professionals, in both developed and developing countries, for shared administrative and technical services, bulk purchasing, and creating a network of specialists who strengthen the range of services offered in a community.

VI. OVERCOMING OBSTACLES TO SUCCESS

Developing country cooperatives operate in difficult environments and, despite stunning achievements and large-scale successes; they have faced problems which are a consequence of operating in extremely challenging contexts. This section discusses several typical obstacles to success: a) creating an enabling legal and regulatory environment; b) accessing markets (local, regional, global); c) moving from government to member control; and d) reaching scale and emerging from dependency. Examples are provided of where and how these obstacles have been overcome.

Success Factors for Cooperatives

- Laws and policies that is favorable
- An economy that permits all types of competitive businesses
- Membership that is open to users*
- Equity from the first day of operations and principally from members
- High equity/debt ratio
- Member-centered 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

* Cooperatives often have limitations on membership such as farming as the principal occupation, or in the case of credit unions, living in the same region (community credit union) or working for a common employer or group of employers (employee credit unions).

a) Creating an Enabling Legal and Regulatory Environment

One of the greatest challenges to successful cooperative development is creating an enabling legal and regulatory environment – adequate laws, regulations and supportive institutions that promote cooperatives as private sector businesses. While many countries have reformed (or are in the process of reforming) their cooperative laws, often they do not treat cooperatives with the same conditions or controls as other forms of

enterprise. Likewise, cooperatives treated as nonprofit organizations can become instruments to advance social rather than business purposes, which ultimately threaten their long-term financial viability, increases their dependence on external government or donor funds and, in so doing, jeopardizes their autonomy and independence from governmental or other third party interests. The first colonial law in Bangladesh was in 1904. Prior to that there were cooperatives, but they were registered under the Societies Act. As early as 1908 cooperative law advanced in British colonies. From the 1950s onward, in emerging post-colonial nations, cooperatives were seen as organizations that could build up national economies.

- **Protect democratic member control:** Law must protect the democratic character of cooperatives, vesting control of the organization in its members;

- **Protect autonomy and independence:**

Cooperatives are private sector businesses. Law must protect the autonomy and independence of cooperatives from government, persons, or entities other than members of the cooperative;

- **Respect voluntary membership:** Law must protect the voluntary nature of membership in cooperatives; membership in cooperatives should be determined by the 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 they are 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 framework should be simple, predictable and efficient; should minimize bureaucratic delay and obstructions to business operation; and should avoid conflict and duplication with other laws. Regulation with respect to the business of cooperatives should be handled by institutions with the most relevant specialized expertise;

- **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; and

- **Avoid conflicts of interest:** The roles of the state in law enforcement, dispute resolution, licensing and promotion should be administered in a manner that avoids duplication, undue influence, and minimizes conflicts of interest.

b) Accessing Markets (Local, Regional and Global)

Cooperatives exist to better their members' circumstances either directly or indirectly. Co-ops have failed without a market-driven approach that allows small business owners and farmers to compete effectively in local, regional and global markets, with the motivation of increased profits. Globalization involves integration of economies around the world from the national to the most local levels, involving trade in goods and services and movement of information, technology, people and investments.¹¹⁰ In a global economy, overcoming marketing and competitiveness obstacles is a challenge that must be urgently addressed by developing country cooperatives. As the advantages offered by protective policies have disappeared, it has been essential for cooperatives to attain competitive advantage through professional management, operational and financial efficiency, high quality products, and competitive pricing. In today's contemporary setting, these efforts have been supported and enhanced by the Fair Trade movement, which represents a new vision and paradigm of international trade that can help developing country cooperatives compete – trade that brings economic and social benefits to poor people and to the economies of developing countries.

Cooperatives and the Fair Trade Movement. In 1988, world coffee prices began a sharp decline that resulted in the initiation of the Fair Trade movement. The movement began in the Netherlands and was branded Max Havelar after a fictional Dutch character.¹¹¹ The Max Havelar Foundation joined with Trans Fair International in Germany in 1998 as the Fair-trade Labeling Organizations International (FLO). Fair Trade cooperatives provide an opportunity for small producers to participate in the global economy, especially in coffee, tea, cocoa and increasingly in organic produce. In 1986, Equal Exchange, a workers Fair Trade coffee cooperative was formed in Boston.

c) Moving From Government to Member Control

True cooperatives effectively serve and are directly accountable to their members. Members finance the cooperative through equity and other mechanisms and control the cooperative by participating in its governance. Emerging from domination by a repressive government and converting to member control has been a major challenge for developing country cooperatives. In developing country situations where the legacy of government control carries a powerful negative stigma, group based businesses are sometimes formed using cooperative principles, but labeled “associations” to counter this stigma. The word “cooperative” has been badly misused, denoting Government-controlled institutions that failed to mobilize their members, who perceived them as being run by government-appointed managers. Such so-called “cooperatives” were not member-owned businesses.

d) Reaching Scale and Emerging From Dependency

Cooperatives have the potential for transformational change, particularly when they can reach the scale necessary for broad-based economic, social, and political impact. The search for scale is the driving force behind the formation of virtually all cooperatives and the *raison d'être* for their continuing existence. Whether they be farmers, households, small businesses, or entire communities without access to modern services; whether their needs are access to commodity markets, insurance, housing, electricity or financing - abandoning solitary status and joining cooperative enterprises is the first step to overcoming the disadvantage of subsisting on the social and economic fringes of national life. 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. Small scale can limit access to markets and resources and that, in turn, contributes to continued dependency on government control and/or donor support. Today, in the age of globalization, consolidation and increasingly competitive markets, cooperatives must take steps to achieve scale. Cooperatives may take alternative paths to achieving scale. The most frequently adopted path is the creation of new secondary cooperative ventures, either as associations of cooperatives with equal responsibilities and benefits, or entirely separate cooperative businesses in which participating cooperatives share an individual, but not necessarily equal, stake. Cooperatives are, by nature, loathe to the idea of conglomeration and merger and the empirical experience with scale-driven consolidation in the cooperative world is littered with failures. There can be various reasons why cooperation between cooperatives is easier said than done, the most common reason being that moving toward scale mandates that cooperatives relinquish, to one degree or another, the very essence of their basic nature – member homogeneity and local control.

VII. Conclusions

Since the early 1800s, cooperatives have made pivotal contributions to the development of economies at strategically important times. In the English-speaking world, the Rochdale Society of Weavers, inspired by ideas of Robert Owen and William King, is considered the first cooperative.¹⁴² For more than 160 years, the Rochdale principles have included open and voluntary membership, democratic management, modest expectations concerning return on capital and dividends paid to members. Inevitably, these pioneers experienced familiar growing pains including friction when members had to sell back their shares because of financial difficulties, suppliers who were wary of the small-scale initiative (a cooperative retail store), competition from established businesses that opposed the cooperative as a competitor, as well as on occasion when ill-conceived investments were not profitable. These cooperative networks were economic operations and grew rapidly as part of social movements that deal with rural poverty and economic depression as part of the industrial revolution. The growth of Western cooperatives was also based on visionary leadership and competent management. Today we stand at another strategically important time in history as the world struggles to find the most effective ways to alleviate extreme poverty and suffering in developing countries across the globe. Cooperative development assistance can help people fulfill their dreams of freedom, economic viability and crisis recovery. Co-ops offer broad grassroots involvement, local control and ownership, and the potential to nurture the capacities of individuals and groups to drive the development of their own economies. Cooperatives can help build the framework for solidarity and just civil societies. In post-crisis situations where the entrepreneurial spirit of rural people is allowed to flourish for the first time in years, cooperatives cultivate good business practices and emphasize markets, financial systems controlled by members, and broader participation in economic activities. Cooperatives help people design programs from the ground up, centered on group businesses that are profitable. Members define their own needs and have a personal stake in the group business. Over time, cooperatives build economic cooperation in fractured societies, with participation open to all including women, ethnic minorities and those practicing different religions. Cooperatives mainstream poor and discriminated groups into conventional economies. The cooperative idea is still dynamic – the fundamentals of aggregating people for marketing power, and placing control in the hands of users, are very powerful ideas if cooperative practitioners are entrepreneurial. Creative leadership is key and research is needed to uncover new ideas, improve the measurement of impacts, and interest the next generation in cooperatives. Major problems confronting cooperative development today are the legacies, misconceptions and

mixed history of cooperatives in developing countries. The challenge is to recognize this phenomenon, analyze and understand it more thoroughly, find more effective ways to help fledgling cooperative movements reach scale, and reorient development professionals' thinking to recognize the universality of cooperatives as one means to achieve poverty alleviation and economic opportunity in the developing world.

ENDNOTES

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