Co-operative College **Paper 13**

co·operatives for development

Co-operatives and poverty reduction

Evidence from Sri Lanka and Tanzania

By Johnston Birchall and Richard Simmons

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Foreword

This paper is the first in a series of publications from the Co-operatives for Development programme at the Co-operative College. Funded by the UK Department for International Development, the programme aims to enhance the contribution of co-operatives to poverty reduction globally by:

- undertaking and stimulating research,
- developing evidence based policy inputs,
- writing and disseminating publications,
- providing capacity building support in research to colleges and other institutions in Africa,
- providing technical assistance to co-operative development programmes.

The creation and sharing of knowledge of co-operatives has become even more important in the wake of the global financial crisis. Recognition of their role in stimulating more sustainable patterns of growth is now growing again after a long absence.

The re-evaluation of the role of co-operatives needs to be grounded in solid foundations of research and analysis. We hope the work of Co-operatives for Development will play a key role in contributing to this re-evaluation in a number of ways, not the least via the publication of papers such as this one.

Thanks to Johnston Birchall and Richard Simmons for contributing this paper to the series. Written for a general audience, we hope that this paper will be read and reflected on as widely as possible, both within and beyond the co-operative movement. Forthcoming papers will cover issues such as Fair Trade, Co-operative Education and environmental issues.

For further information about the Co-operatives for Development programme visit our website **www.internationaldevelopment.coop**

Dr Linda Shaw
Head of Research

Introduction

Why are there so many poor people in the world? Why, in a world of food surpluses are so many people not getting enough to eat? Why, in a world of enormous medical advances are so many children dying of preventable diseases? Why, with all the billions of dollars of aid flowing from North to South, are many countries stagnating, and conditions for their citizens getting worse? These are simple questions, but the answers seem to be very complicated.

There is no lack of commitment to finding the answers. At the Millennium Summit in New York, in September 2000, the largest gathering of heads of state the world has ever seen committed themselves to the Millennium Development Goals (MDGs). They are: to eradicate poverty and hunger; to achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability, and to develop a global partnership for development. Behind the MDGs was some shrewd thinking about the multidimensional nature of poverty and about the need not just for economic development but for *human* development. Instead of seeing poverty just as a lack of income, they defined it as a "lack of basic capabilities to lead full, creative lives". These capabilities include having a decent standard of living, but also living a long and healthy life, being educated, and enjoying political and civil freedoms. They depend on essential conditions such as a sustainable environment, gender equity and a fair global economic system.

What progress has been made towards the MDGs? By 2003 the news was not good. The World Bank's assessment was that the gap between rich and poor was growing, and that unless current trends were reversed the MDGs would not be met. Others agreed that" unless there is radical improvement, too many countries will miss the targets". 59 countries were simply failing to progress at all. The experts decided that, if trends continue as they have been in the 1990s, only two goals - halving income poverty and the proportion of people without access to safe drinking water - would be met. However, this was due not to concerted international effort but to the enormous economic growth over the last few years of China and India (Birchall, 2004).

We are now more than half way towards 2015. Progress is still uneven and the UN Secretary General reckons "we face nothing less than a development emergency" (United Nations, 2008). On current trends, no African country is likely to achieve all of the goals. With the recent increase in food prices, the decline in child malnutrition has slowed. Progress in empowering women has been modest. Sub-Saharan Africa continues to lag behind on all the indicators. It has poor quality education and lower school enrolments. It has a fifth of the world's children under five but half of all child deaths, while maternal mortality rates have not changed since 1990. Only 58% of its people have access to improved sources of drinking water compared to 88% in South Asia.

Why are we failing to achieve the Millennium Development Goals? The UN blames slow progress in opening up world trade to developing countries, and cutbacks in development aid. There is also a growing realisation that there has been a collective neglect of agriculture in developing countries, and the World Bank has begun to concentrate its efforts on reviving rural economies through improving food output (World Bank, 2008). The flight from the rural areas means cities are growing too quickly, and one billion of the world's population now live in slums. The UN wants urban development policies to upgrade slums, and decent work programmes to provide employment. All of this implies massively more aid – for instance over $10 billion per year just to meet the health related MDGs and another $10 billion for water and sanitation. However, there is no guarantee that countries will be able to absorb all this aid, nor that it will be spent wisely; some experts now think aid is just part of the problem (Moyo, 2009).

These explanations for the lack of progress do not really go to the heart of the matter. They are simple answers to the simple question of why the MDGs are not being met, when we need answers that go deeper and explain why some countries – and particularly those in Sub-Saharan Africa – are caught up in a cycle of deprivation they do not seem able to break out of. Paul Collier has identified four traps that countries get into: a conflict trap, a natural resource trap, a landlocked country trap, and a governance trap.

These explain why, despite the best efforts of the world community, they remain obstinately poor.

First, there is a *conflict trap* caused by political instability leading to civil wars and coups. "Seventy three percent of the people in the societies of the bottom billion have recently been through a civil war or are still in one" (Collier, 2008, p17). Not surprisingly, war keeps people poor and prevents growth. It is made more likely by low incomes and slow growth, coupled with the chance of getting hold of natural resources. Unless a country can grow quickly it is stuck in the conflict trap, suffering recurring conflicts that only make things worse.

Second, there is a *natural resource trap*, which affects about 29% of people in the bottom billion. They live in countries that have high incomes from resources such as oil or minerals. This is paradoxical, because we might expect countries that have such high incomes to become richer, but the influx of 'easy money' actually prevents growth. The currency becomes overvalued and exports suffer, price fluctuations and changes in output create a boom and bust economy, people's attention is diverted away from more productive ways of making a living, and corruption becomes endemic. The political process is subverted by 'patronage politics' in which it is easier to gain loyalty by bribing voters rather than providing them with good public services. This trap can be escaped from if there are checks and balances that prevent such patronage politics, but countries rarely follow the example of Botswana, which is both rich in minerals and has transformed itself into a middle income country. Nigeria, for all its oil wealth, has experienced no real economic growth in a long time. It gets worse. Dambisa Moyo, an outspoken critic of aid to Africa, says that aid acts in the same way as natural resources to prevent growth, foster corruption, weaken the commitment to public services, and undermine civil society. She talks not of a trap but a vicious cycle – of underdevelopment caused by reliance on aid (Moyo, 2009).

Third, countries are trapped by their own geography; 38% of the bottom billion are in *landlocked countries*, mainly in Africa. There are rich landlocked countries such as Switzerland, but they are dependent on the infrastructure provided by other countries to enable them to export. Botswana is landlocked but manages its resource wealth effectively. Other African countries (such as Uganda) are stuck in a trap that depends on improved transport links through other countries (such as Kenya) yet these countries have no incentive to improve the transport links; why should they? So the landlocked countries remain poor.

Fourth, there is a *governance trap*. Bad governance can quickly destroy a growing economy; you just have to look at Zimbabwe. If all the opportunities for growth are there, bad governance cannot stop a country growing, but if a country suffers from any of the other traps bad governance deepens them. Paul Collier cites Chad, which is a landlocked, oil-rich country that desperately needs to improve its public services. A study done in 2004 found that less than 1% of money earmarked for rural health clinics reached its destination (Collier, 2008, p66).

It is not easy to find ways to escape these traps. Collier advocates military intervention and a post-conflict charter to escape the conflict trap, new trade policies to escape the natural resource trap, international laws and charters, and changes in aid policy so the right kind of aid goes to the right place at the right time. In his 'Agenda for Action' he asks "What can ordinary people do?" His answers suggest what we can do as an electorate to make our governments and international agencies smarter, more focused on the 'bottom billion' yet using a wider range of instruments than just aid. Yet there is a problem here. Many people in the rich countries want to do more than just influence governments; we want to get involved. And so do many people in developing countries; the poor are willing to help themselves if they are only given a chance.

We know that these big traps have to be escaped, but also that there is a lot that people can do for themselves now, and in small ways that involve action on a human scale. Fair trade, for instance, is one way in which ordinary people from the North and South can meet up and take action to reduce poverty (see Shaw, 2006). Trade agreements do not have to be just between governments; consumer co-operatives in the North and producer co-operatives in the South are working together to raise the incomes of poor farmers. In the informal economy in the cities of the South, mutual aid between small business people can make all the difference to their lives (Smith and Ross, 2006). More generally, co-operatives are seen as a vital way in which people in the South can help themselves. To find out what is the potential for this kind of action, we need to extend the idea of traps right down to the local level, to the places where people live and are trying to make a living.

Poverty traps

> *From the study of poverty traps … we gain insights into both general principles and the specifics of what poverty programmes must do to be successful.*

In his recent book called *Ending Global Poverty*, Stephen Smith identifies 16 poverty traps. He explains "From the study of poverty traps … we gain insights into both general principles and the specifics of what poverty programmes must do to be successful". They are "not a ready-made checklist to diagnosis and action" (Smith, 2005, p17), but they explain why the poor stay poor, and enable us to work out what sort of intervention might release them from these traps. Here is an explanation of what these traps mean, and some tentative ideas about how people can be released from them.

First there is a *family child labour trap* – If parents are not productive enough to support a family, children have to work. The children miss out on an education and so later in life do not earn enough to support their family, and so on. One way out of the trap is to find a way of raising the incomes of families, and particularly of mothers, so that they can afford to send their children to school. Related to this is an *illiteracy trap* – people who miss out on their early years education never get to learn to read or write, and some way has to be found to offer a second chance through adult education. There is a *working capital trap* – a lack of credit stops small business people from expanding their business, farmers from diversifying their production, and so on. Micro-credit schemes are needed to enable people to escape this trap. For the poor, who have no collateral, group-based schemes share the risks and reassure the lender that the loans are viable.

Related to this is an *uninsurable risk trap* – the poor face greater risks than others, and the consequences of losing their livelihoods are much more serious. Consequently, they tend to be wary of the risks involved in taking opportunities to increase their income. They are cautious and so miss out on these opportunities. Group-based risk sharing through mutual insurance is needed to enable them to escape this trap.

Then there is a *debt bondage trap* – when poor people are permanently indebted to moneylenders, they become almost slaves, as much of the income from their labour is already owed to someone else. One way to escape this trap is to find a way of providing bridging loans to farmers to even out their incomes so they do not need to borrow from moneylenders. Then when they sell their crops they can keep more of the profit for themselves. There is an *information trap* – poor people such as day labourers and domestic labourers often have to work long hours at menial jobs, and so miss out on information about better alternatives that might be available. There is a need for organisations that provide such information. There is an *under-nutrition and illness trap* – in deeply impoverished areas, and areas suffering periodically from famines, under-nourished people are too weak to work productively. There is a need to distribute subsidised staple foodstuffs to help people gain the strength to survive on their own. There is a *low-skill trap* – if people do not have the right skills, employers will not set up in an area, but if there are no employers the people will have no incentive to gain the skills. The whole local economy becomes trapped and so there is a need for skills training.

The *high fertility trap* is a big one – it is well known that people do not limit the size of their families if they are unsure about their future, and that the stabilising of populations comes with economic growth. If they can be enabled to raise their incomes, people will eventually begin to have the confidence to limit their families. *Subsistence traps* occur when there are no local markets for produce, there is no way of transporting produce to market, or the price of one's produce is simply too low. Here, primary producers such as farmers or fishers will produce for subsistence. They need some kind of 'middle-man' that provides farm inputs to improve the quantity and quality of what is produced, links producers to markets, and processes the products to add value. These functions can be provided by private traders, but in a market position that tends towards natural monopoly they will charge high prices for farm inputs, offer low prices for the product, and exact high interest rates on credit. *Farm erosion traps* occur when farmers are tempted to overuse the land, because they are so poor they have no choice but to put short-term needs before long-term sustainability. They need to be enabled to raise and diversifying farm incomes, so as to ease these kinds of pressures. Related to this is a *common property mismanagement trap* – this is the problem of how to manage common pool resources such as fish stocks, water for irrigation, and forest products. The problem is known by academics as 'a prisoners' dilemma'; individuals have an incentive to overuse the resource even though, by coming to agreements that limit the use, everyone will be better off. There is a need for a forum within which such agreements can be made, and a means of enforcing them.

The *collective action trap* is another big one – sometimes the only way to improve a situation is for people to work together, yet the costs to individuals of setting up an organisation are high. There is a temptation to let others do the work (what academics call 'free riding') and so the collective benefit is not provided. Sometimes there is a *criminality trap* – when there is no way of making a living from legitimate business, some people turn to crime. Often their victims are other poor people. Also, when incomes are low and paid employment does not guarantee subsistence, corruption can become endemic. There is a *mental health trap* – Smith points out that "depression and anxiety are pervasive among the poor", that they can suffer shame and humiliation from richer neighbours, and that this is made worse by domestic abuse, drug and alcohol dependency, and so on. Poor mental health becomes another form of poverty trap. There is a need to empower people and give them a sense of pride and hope for the future. This relates to the last trap – *powerlessness*. The poor are often kept down by "the active connivance of the rich, who benefit from low wages and subservience" (Smith, 2005, p17). Barriers are deliberately built around them by those who benefit from their poverty.

Who can open the traps?

From this brief examination of the traps poor people find themselves in, we can see why, for many years now, one of the answers to the problem of poverty has been participatory development; helping people to help themselves. On their own, the poor can only stay trapped. They have to work together to gain collective strength that they do not have individually; the poor need to get organised. But what types of organisation are best at doing this? There are several types, including the public sector, private for-profit sector, non-governmental organisations (NGOs), community-based organisations (CBOs) and co-operatives. We think that co-operatives are the best form, and so it is important at this point to say what we mean by co-operatives. Co-operatives are member-owned businesses. The simplest way to understand them is that they aggregate the market power of people who on their own could achieve little or nothing, and in so doing they provide ways out of poverty and powerlessness. The representative body for co-operatives, the International Co-operative Alliance (ICA), defines a co-operative 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*
> (International Co-operative Alliance, 1995).

The ICA sets out seven co-operative principles: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for community. The first four of these are core principles without which a co-operative would lose its identity; they guarantee the conditions under which members own, control and benefit from the business. The education principle is really a commitment to make membership effective and so is a precondition for democratic control, while co-operation among co-operatives is really a business strategy without which co-operatives remain economically vulnerable.

The last principle, concern for community, recognises that, unlike investors, co-operative members tend also to be members of a particular community. Often, one of the business aims for the co-operative is that it will meet the needs of this wider community. This does not mean that co-operatives are 'social' rather than economic, and can just be used as a tool of development. We have to distinguish between the *primary aims* of the co-operative, which are to meet the members' economic needs, *by-products* such as improved nutrition and increased capabilities, and *aggregate effects* in the wider society such as lower mortality rates or higher employment levels. Paradoxically, in order to achieve these wider goals governments need to respect the autonomy of co-operatives.

The diversity of types of co-operative can be confusing, and so here is a simple way of classifying them. Apart from the investors of capital, there are three main stakeholders in a business: its consumers, the producers who supply inputs to or take the outputs from the business, and its employees. In a co-operative, usually one of these stakeholders is put at the centre of the business. This gives us three classes: consumer co-operatives, producer co-operatives and worker co-operatives. There is one interesting complication. *Financial co-operatives* – co-operative banks, insurance societies and credit unions – often have in membership people who are consumers of their products and – in their own right – producers. So farmers and small businesses can be members alongside private individuals. As long as the interests of each group do not conflict, the co-operative works well.

What is the evidence for the impact of co-operatives? How do they compare in real life situations with other types of organisation? How do they get started, and once they are going are poor people prepared to support them? It is with these kinds of questions in mind that we began our two year research project on 'Co-operatives and Poverty Reduction'.

Co-operatives in Sri Lanka and Tanzania

We selected two countries as case studies: Tanzania and Sri Lanka (a third case study in Serbia is now under way, and the results will be provided in a later publication). We chose Sri Lanka and Tanzania because the history of co-operatives in both countries is remarkably similar, up to the last decade when a reform process began in Tanzania but has been resisted in Sri Lanka. Here is a brief overview of the history of co-operatives in each country.

In Sri Lanka, the first co-operative was the Dumbara Co-operative Credit Society, formed in 1906. In 1911, the colonial government enacted the first credit co-operative law and took an interest in promoting the movement (Ebert, 1994). Although they granted loans for agriculture, it was not until 1947, just before independence, that a drive for forming agricultural production and sales societies began in dairying, fisheries and small scale plantations. The dominant form was the consumer co-operative, set up during the Second World War to distribute rationed goods; by 1945 there were over 4,000 societies and more than half the population were "being clothed and fed through Co-op stores" (Jayaweera, 1990). In Tanzania, the first co-operative, the Kilimanjaro Native Planters Association, was formed in 1925 under the initiative of peasant farmers. By 1932 the colonial government had enacted a Co-operatives Act, and began to promote and regulate marketing co-operatives in coffee and then in cotton. By the time of independence these had a virtual monopoly in cotton and coffee. However, the government was uninterested in member education and the co-operatives remained very 'top-down' in character (Banturaki, 2000).

After independence, in Sri Lanka 75 different types of co-operative had grown up, all single purpose, and reflecting the needs of the members. However, they were small, often not viable, with one village having seven or eight different types (Rajaguru, 1996). The government began to promote

Tanzania

Kilimanjaro Co-operative Bank: Owned by the Kilimanjaro Native Co-operative Union, this bank provides badly needed credit to smallholder farmers. It also channels government funding in the form of preferential loans to small to medium sized enterprises. Its success shows that farmer owned businesses are capable of meeting their own credit needs, despite their troubled history.

Photo: © J. Birchall

Tanzania

This women's co-operative project in the quarries of Mtongani (Dar Es Salaam), was supported by the ILO to provide an alternative to the stone breakage that used to be the principal activity of women in the district. The produce from the co-operative is sold in the markets.

Lazia (left), with 6 children, now works in mushroom cultivation.

Photo: © International Labour Organization/Crozet M.

Photo: © International Labour Organization/Crozet M

Maria (left) and Sauda (right) work in a hen house of the co-operative.

Mamsera Rural Co-operative Society, Rombo, Tanzania

Mamsera Rural Co-operative Society is a member of the Kilimanjaro Native Co-operative Union (KNCU) but started doing its own coffee processing and providing its members with services directly in 2003. They struggle to get a decent price for their coffee but are trying to make savings by being efficiently run and not spending money on expensive cars for the manager. The society has been very successful and they put this down to their manager who is a woman.

Photo: © J. Thorpe

Photo: © J. Thorpe

Photo: © S. Lacey

One of the most important aspects of a rural co-operative is that it owns its own scales so that the farmer members know they are not being cheated by middle men with biased scales. Farmers watch as their coffee is weighed and can check to see that the correct weight is recorded.

Another important service in very rural areas such as Rombo, is the provision of affordable farm inputs and materials such as bricks. It can be very expensive for rural farmers to travel to a town to buy inputs and, due to the small quantities they buy, they do not get good prices. When the co-operative buys these inputs, it buys in bulk at lower prices and makes them available to farmers in their local area, saving members' time and money.

Photo: © C. Ross

Tanzania

Mugeza Secondary School: This school is in a remote area in the hills above Lake Victoria. It was started by the Kagera Co-operative Union (KCU) in 1992 to assist parents who are members of KCU and their children to have a secondary education in a place where there is very little education available. This school is one of three schools originally owned by the KCU.

The KCU was at first able to support parents by paying half of their school fees and made large payments to the school itself for buildings and general infrastructure. The school had to fundraise in any way it could to secure money for teachers – some of whom were paid for by the government.

Schools like this show the contribution that co-operatives can make to education. However, they also show the difficulties associated with public services being reliant on businesses that are themselves exposed to the volatility of the markets. Coffee prices fell during the 1990s resulting in the school being abandoned by 1998. The KCU requested that the government take over the school which it finally did in 2002. The school was then reorganised under government care.

Sri Lanka

In Sri Lanka, there are rural co-operative banks attached to the multi-purpose co-operatives. One criticism made of such banks is that they tend to take savings from rural areas and lend to people in urban areas. The small, locally owned Sanasa societies are more effective at financing small business development in the rural areas.

Photo: © J. Birchall

Sri Lanka

Some of the small, locally-based Sanasa societies do not just provide savings and loans but also meet their members' needs in other ways, such as this small shop. Their commitment to community is legendary, but leaders admit that, if it is to grow, the Sanasa movement needs to concentrate on becoming really good at banking.

Photo: © J. Birchall

Photo: © J. Birchall

The Sri Lankan multi-purpose societies are really consumer co-operatives that have a vital role in distributing basic commodities to people in rural areas; there are 320 of them, covering the whole country. However, our key informants told us they are too controlled by government and need reforming. If members are encouraged to take control, they could become much more effective.

Photo: © Gemunu Amarasinghe/ International Federation of Red Cross and Red Crescent (IFRC) Societies

Ninthavur co-operative society, Sri Lanka

The Ninthavur co-operative society has over 75 members, most of whom were affected by the tsunami. Some lost jobs when the boats they worked on were damaged or destroyed, others lost nets and boats that they owned themselves.

The Ninthavur co-operative society runs a 'Beach Shop' selling fuel and oil for fishing boats, both to members and other fishermen.

Photo: © Gemunu Amarasinghe/ International Federation of Red Cross and Red Crescent (IFRC) Societies

Fishermen members of Ninthavur, Gramasevaka division, fill their boats with fuel from the beach shop.

Photo: © Gemunu Amarasinghe/ International Federation of Red Cross and Red Crescent (IFRC) Societies

Photo: © Gemunu Amarasinghe/ International Federation of Red Cross and Red Crescent (IFRC) Societies

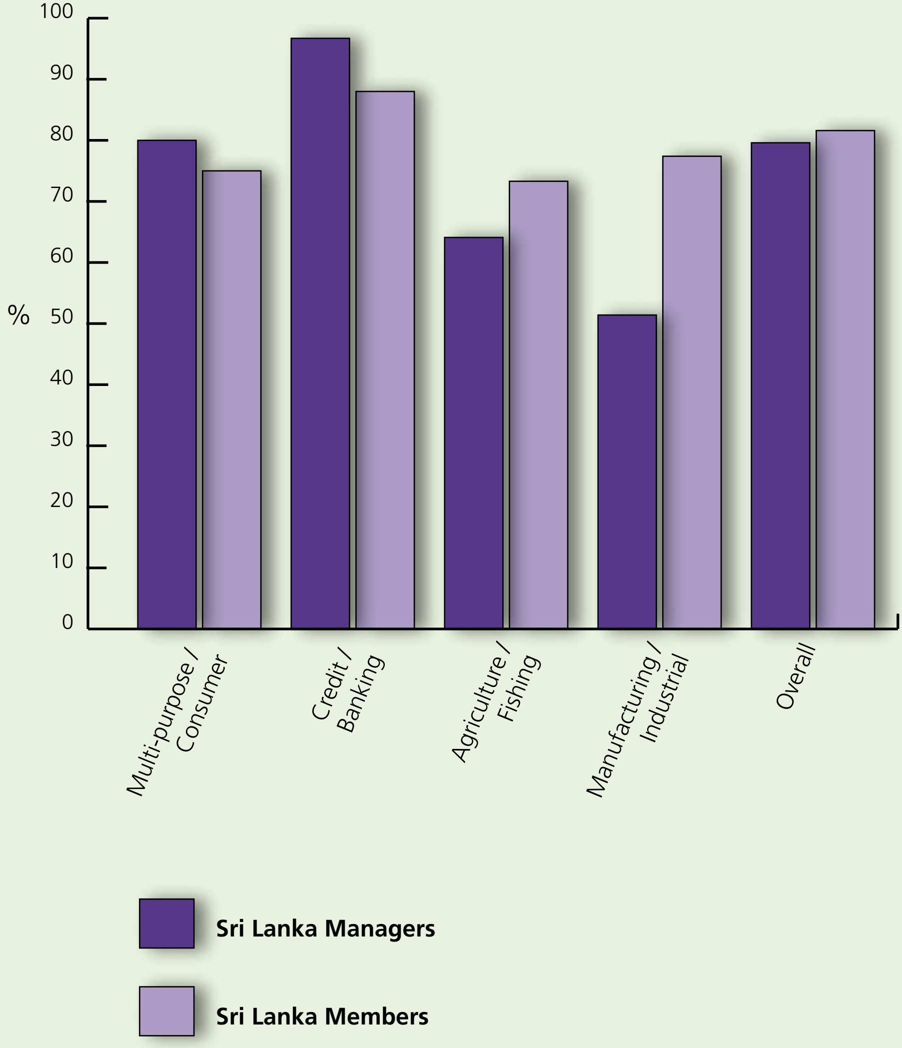
Profits from sales at the beach shop along with a grant from the IFRC supports community projects, such as the provision of sewing machines and rice pounding machines to low income or vulnerable families. Sinnarasa Dhaninjina lost her husband in 2006 and she supports the household with the money she makes as a seamstress. The sewing machine she uses was provided by the Ninthavur Fisheries Co-operative Society, which her husband helped to form prior to the tsunami. Twenty families such as hers receive funding and assistance from the profits made by the co-operative society's beach shops.

Co-operatives whose respondents say they raise members' incomes – Tanzania

(See also Table 2, p36)

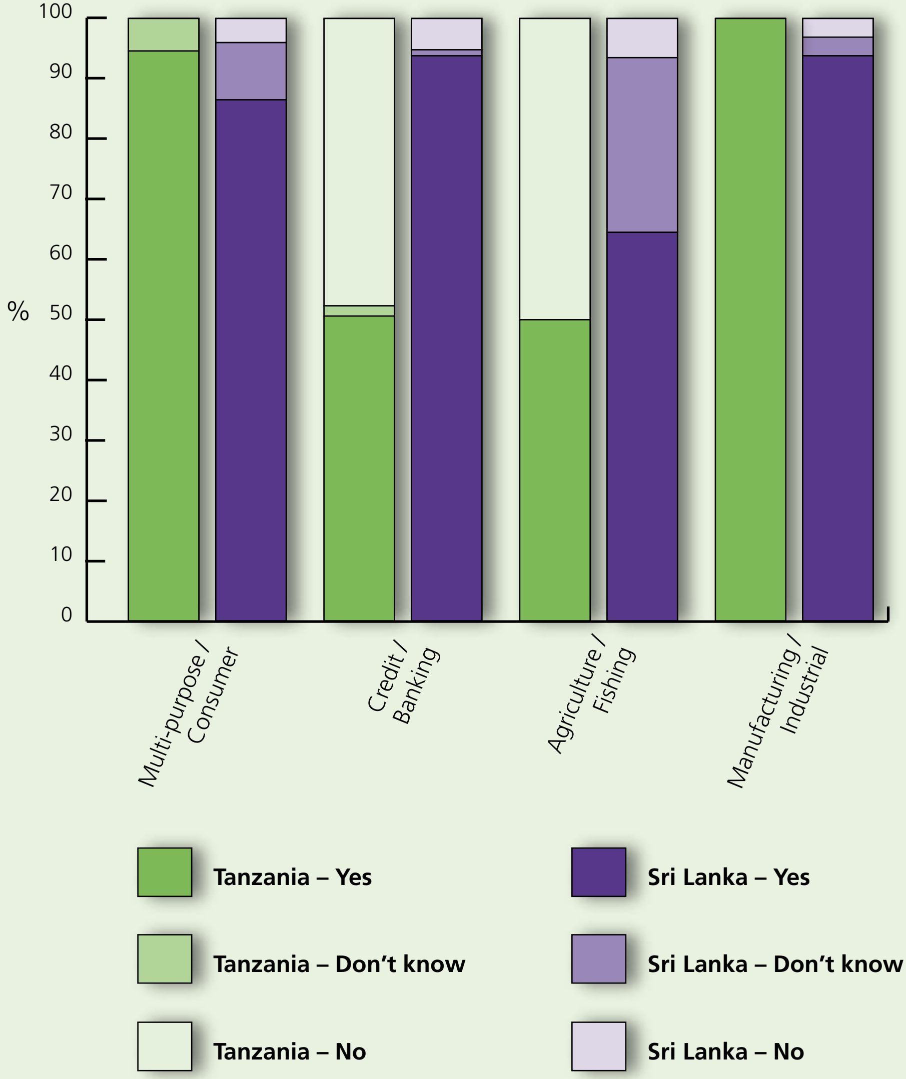
Co-operatives whose respondents say they raise members' incomes – Sri Lanka

(See also Table 2, p36)



Is the co-operative able to reach the poorest people in the community?

(See also Table 1, p35)



multi-purpose co-operatives (MPCSs), one per village, which combined the consumer co-operatives with the agricultural inputs co-operatives. By 1968 there were over 5,000 societies, with a total membership of 1.1 million people. But they had lost their autonomy: they became, essentially, agencies of government for delivering rationed goods to the rural population. In 1970 they were amalgamated into 371 societies covering 10-20 villages each. As one historian comments: "Co-operatives were born from the pen of the Registrar and not from voluntary association" (Rajaguru, 1996, p17). Nominations to boards ensured a pro-government majority at all times.

A similar process occurred in Tanzania. After independence in 1961, agricultural co-operatives were given monopolies in coffee, cotton and cashew, and the number of primary societies increased rapidly, from 457 in 1961 to 1533 in 1966 (Gibbon, 2001). They were dominated by better off farmers, who used their positions to personally appropriate the inputs. Rapid expansion was associated with a decline in efficiency and increase in corruption and nepotism. Government stepped in, taking over district and regional co-operative unions and putting its own personnel in and seeing the co-operatives as potential instruments of a socialist economic policy. From 1969 onwards, they were transformed to fit into the government's villagisation policy (Ujamaa) as multi-purpose societies providing agricultural production, consumer retailing, and marketing of cash crops. In 1976 all co-operative unions were dissolved and replaced with state crop authorities.

In Sri Lanka government control of the MPCSs continued despite the process of structural adjustment and partial privatisation of the economy; they are still very much 'creatures of government' even today. Other types of co-operative declined under the impact of growing competition from private traders, the exception being the credit co-operative movement which under the name SANASA, in the late 1970s began a strong revival. SANASA was never under government control, and as a genuine social movement remains able to keep political influence at bay. In Tanzania, during the 1980s the co-operative sector became an arm of the ruling political party, but then from the 1990s onwards a gradual and faltering process of reform began. An Act of 2003 has finally made the co-operatives autonomous and a Co-operative Reform and Management Programme promises to undo some of the damage done, but the movement remains very weak. Again, the exception is the 'SACCOS' movement, of credit co-operatives, which is expanding rapidly and is proving very popular.

Our project

Our research project took two and a half years and was funded by the Economic and Social Research Council, as part of its Non-governmental Public Action programme. This is what we did (see Appendix for further details). First, at the *national* level, we read as much as we could on the subject, and did some long interviews with people we call 'key informants'. They included people from the co-operative movements, governments, donor organisations, NGOs and the private sector. In total we interviewed 30 key informants in each of our case study countries. Then at the *local* level, we carried out a face-to-face survey of primary co-operatives. Three regions/provinces in each country were selected (one rural, one urban, one peri-urban) and for these regions a list of active co-operatives of four types was compiled: consumer, credit, agricultural and fishing and industrial co-operatives. The final sample was then selected randomly from this list. We trained staff and postgraduate students from local universities to do interviews, which were conducted face-to-face with the managers of primary co-operatives in their preferred language. The response rates were extremely high at 80-90%. While interviewing these managers, interviewers left behind shorter, self-completion questionnaires for member-directors to complete and return. This resulted in a large dataset of more than 475 co-operative managers and 250 member-directors. We were very pleased with the way things turned out, as this is the largest survey of co-operatives in developing countries that has been done for a long time. In the next sections, we report on what we found out.

Do co-operatives enable people to escape from poverty? – the evidence

Before we could claim anything for the co-operatives we studied, we had to find out if they really do reach the poor. We know that they are situated mainly among low-income rural populations and that they include many people who are poor by any common standards, but there were no local statistics that would allow us to match co-operative members with poverty levels. So we asked co-operative managers to estimate what proportion of the local population was poor and what proportion of the co-operative's membership was poor (using the UN Definition of earning less than a dollar a day). Their answers indicate that the proportion of poor people in the local population was generally very similar to that in the co-operative. This gave a good indication that co-operatives are quite representative of the local

Table 1: Is the co-operative able to reach the poorest people in the community? (see also the graph on p32)

Co-operative Sector	Sri Lanka (%)			Tanzania (%)		
	Yes	No	Don't Know	Yes	No	Don't Know
Multi-purpose / Consumer	86.5	4.1	9.5	94.6	0.0	5.4
Credit / Banking	93.8	5.2	1.0	50.6	47.8	1.7
Agricultural / Fishing	64.5	6.5	29.0	50.0	50.0	0.0
Industrial / Manufacturing	93.8	3.1	3.1	100.0	0.0	0.0

population as a whole, including poor people. But are they able to reach the poorest people? Table 1 shows that mostly they can, but that in Tanzania in the credit co-operatives and primary producer co-operatives (agriculture and fishing) only half the respondents agreed. This is because employee-based credit co-operatives often target higher paid people, and that to be members of agricultural and fishing co-operatives people have to have some land or fishing equipment.

The all-important question can now be asked – are co-operatives able to raise their members' incomes? Overall, 86.8% of co-operative managers in Tanzania and 79.6% of those in Sri Lanka told us that they were effective at raising members' incomes (88.6% of members in Tanzania and 81.6% of those in Sri Lanka agreed). In Table 2 we break this down by co-operative sector in each country.

How do co-operatives raise their members' incomes? In the *multi-purpose* and *credit* co-operatives, a widely-identified factor was the ability for members to receive small loans to support their own self-employment through retail shopkeeping, farming or keeping livestock. One credit co-operative told us that they have 14 different types of loans for different business activities, enabling members to repair buildings, install electricity and telephones, and buy essential machinery or equipment. As well as helping to start up new businesses, they also provide working capital and loans to grow

__Table 2: Co-operatives whose respondents say they raise members' incomes (see also the graphs on pp30-31)__

	Sri Lanka (%)		Tanzania (%)	
	Managers % (N=242)	Members % (N=196)	Managers % (N=235)	Members % (N= 71)
Multi-purpose / Consumer	80.0	75.0	77.4	78.6
Credit / Banking	96.7	88.0	88.9	89.8
Agricultural / Fishing	64.1	73.3	70.0	100.0
Industrial / Manufacturing	51.4	77.4	100.0	100.0
TOTAL	**86.8**	**88.6**	**79.6**	**81.6**

the business. Such loans are very difficult for people to get elsewhere; these business activities would never get off the ground without the co-operative. Of course, starting a business is risky, and co-operative leaders are aware of the danger of lending to people who are not well prepared. So they provide training in entrepreneurship, or encourage their members to get help from specialised business training agencies.

Agricultural and fishing co-operatives are also able to support their members by providing the right kind of knowledge and training. They provide up-to-date technical information, and supply much needed inputs to their members' businesses at low prices or on credit: seeds, equipment, chemicals, fertilizers, but also livestock and agricultural equipment, fishery nets and other equipment. Fishing co-operatives told us that they had used the accumulated capital in the society to buy fishing boats that were then made available to the members, or to restock a lake with fish. They also help members to sell their outputs. For example, dairy co-operatives collect milk from their members for sale, while agricultural marketing co-operatives collect other produce (such as rice, grains, tea, coffee, cashew nuts, mushrooms, tomatoes). The co-operative is able to offer a higher price to their members for their produce than they would be able to get from private traders. It also provides market information so that members know when their produce will fetch the best price.

Similarly, *industrial and craft* co-operatives help their members to produce saleable products. In pottery co-operatives, members have been provided with roofing sheets for their chimneys, while in jewellery co-operatives members can obtain raw materials and technical instruments at low prices. A major benefit is the shared facilities provided by the co-operative, such as a common service centre in a village which means members can make a living where they are, rather than having to move to the city.

These are just some of the ways in co-operatives work to help improve the incomes of their members. What about other types of 'non-income' poverty? Table 3 provides a statistical summary of people's survey responses about the most important contributions that co-operatives make to both non-financial poverty and financial poverty. It demonstrates that co-operatives in Tanzania and Sri Lanka often play a significant role in helping members to escape from poverty traps, as well as helping to meet some of the key MDGs. It shows that in addition to income poverty, co-operatives in Sri Lanka and Tanzania make a particular contribution in terms of skill development and education; gender equality and the empowerment of women; help when members suffer illness or other setbacks such as bereavement, and help to improve members' shelter and living standards. They also take their central role in communities seriously, particularly in terms of solving common problems in the community and the creation of 'good citizens'.

Some societies consist of a majority of women, and some are set up exclusively for women. We were told that, by encouraging women to take up self-employment and income generating activities, co-operatives have made a real difference to family incomes. Women have also been empowered to take leadership roles, set up their own committees and organise welfare activities through the co-operative. We also found that many co-operatives take a very positive approach to *children and their education*. A number of co-operatives have even set up their own youth societies as a way of both developing the skills of young people and encouraging them to save. The support of co-operatives runs from the direct provision of pre-schools and schools, to scholarships to members' children to attend school, to help with higher education opportunities. Some co-operatives are also directly involved in educational activities, for example organising competitions of singing, dancing and literature, essay competitions,

Table 3: Poverty reduction indicators

Poverty Reduction Indicator	Sri Lanka		Tanzania		Inter-national
	Managers % (N=242)	Members % (N=196)	Managers % (N=235)	Members % (N= 71)	Leaders Rank (%) (N=19)
Provides working capital for small businesses *(Working capital traps)*	**1** (78.9)	**1** (61.2)	**6** (39.9)	**2** (42.3)	**1** (53.8)
Helps people gain useful skills *(Low skill traps)*	**5** (48.5)	**2** (58.7)	**4** (55.1)	**1** (45.1)	**6** (35.7)
Helps solve common problems in the community *(Collective action traps)*	**3** (52.5)	**4** (49.5)	**1** (75.4)	**4** (38.0)	**12** (31.3)
Improves gender equality/ empowerment of women *(Family child labour traps, Powerlessness traps)*	**4** (49.8)	**5** (45.9)	**3** (64.5)	**3** (40.8)	**3** (53.3)
Increases members' incomes from small businesses *(Income poverty)*	**2** (61.2)	**3** (52.6)	**12** (30.5)	**5** (36.6)	**1** (53.8)
Helps members find new ways to make a living *(Subsistence traps)*	**6** (48.3)	**6** (40.3)	**5** (44.2)	**11** (16.9)	**20** (21.4)
Helps more children attend school *(Illiteracy traps)*	**10** (31.7)	**15** (16.8)	**2** (68.4)	**6** (28.2)	**5** (37.5)
Increases the earnings of small farmers *(Income poverty)*	**7** (40.9)	**7** (34.2)	**13** (26.6)	**7** (21.1)	**4** (41.7)
Provides improved housing/ security of tenure	**10** (31.7)	**9** (27.0)	**7** (39.6)	**8** (19.7)	**8** (33.3)
Provides cover for illness/ setbacks *(Under-nutrition and illness traps)*	**8** (39.3)	**9** (27.0)	**8** (35.6)	**18** (9.9)	**14** (25.0)
Helps overcome local political/economic barriers *(Powerlessness traps)*	**9** (33.2)	**12** (24.5)	**14** (22.8)	**8** (19.7)	**24** (13.3)
Helps people conserve the environment *(Farm erosion traps)*	**13** (27.3)	**8** (29.6)	**16** (19.8)	**13** (14.1)	**6** (35.7)
Improves the quality/ quantity of food people eat *(Under-nutrition and illness traps)*	**14** (25.0)	**9** (27.0)	**17** (18.1)	**13** (14.1)	**14** (25.0)

Poverty Reduction Indicator	Sri Lanka		Tanzania		International
	Managers % (N=242)	Members % (N=196)	Managers % (N=235)	Members % (N= 71)	Leaders Rank (%) (N=19)
Reduces depression, alcoholism, domestic abuse *(Mental health traps)*	**19** (15.8)	**15** (16.8)	**9** (33.9)	**16** (11.3)	**23** (16.7)
Helps more people read and write *(Illiteracy traps)*	**16** (23.8)	**17** (15.8)	**10** (33.3)	**20** (5.6)	**8** (33.3)
Provides information about job opportunities *(Information traps)*	**15** (24.4)	**14** (21.4)	**20** (12.0)	**15** (12.7)	**16** (23.1)
Diversifies farm incomes to avoid overuse of land *(Farm erosion traps)*	**21** (8.3)	**22** (7.7)	**11** (33.2)	**11** (16.9)	**21** (20.0)
Helps to reduce crime/fear of crime *(Criminality traps)*	**24** (6.3)	**24** (4.6)	**15** (21.6)	**8** (19.7)	**21** (20.0)
Provides basic food and fuel *(Under-nutrition and illness traps)*	**12** (30.8)	**12** (24.5)	**23** (3.1)	**23** (1.4)	**16** (23.1)
Good employer - wages, job security, safety *(Powerlessness traps)*	**17** (19.4)	**18** (14.3)	**21** (10.3)	**16** (11.3)	**16** (23.1)
Helps people manage common resources *(Common property mismanagement traps)*	**20** (12.4)	**20** (12.2)	**18** (16.4)	**18** (9.9)	**13** (27.3)
Helps prevent people falling into bonded labour *(Debt bondage traps)*	**23** (7.4)	**21** (9.2)	**19** (13.4)	**22** (2.8)	**19** (22.2)
Insures members against illness/unemployment *(Uninsurable risk traps)*	**18** (18.2)	**19** (12.8)	**24** (2.6)	**25** (0.0)	**8** (33.3)
Provides safe drinking water *(Under-nutrition and illness traps)*	**21** (8.3)	**23** (6.6)	**25** (0.9)	**23** (1.4)	**8** (33.3)
Encourages people to have fewer children *(High fertility traps)*	**25** (2.5)	**25** (1.0)	**22** (6.0)	**21** (7.0)	**25** (10.0)

speech competitions and so on. Further, some societies fund equipment and stationery for schools, or maintain a small library. However, it is not only children who benefit from educational opportunities in the co-operative. Alongside the skills training and knowledge development provided by many societies for their members, further opportunities were provided by some societies for *improving the literacy and numeracy of never-schooled members* through the provision of basic language and arithmetic classes.

When co-operative *members fall ill or suffer setbacks* (such as bereavement), most societies are there to help them. Some co-operatives run low-cost insurance schemes for members to cover such things as medical treatment or funeral expenses. Other societies have welfare committees that will respond to these issues by providing financial support or access to medical facilities that covers doctors' expenses or gives members free hospital cover. Co-operatives also told us how they respond to specific hardships; in one case three people were helped to get treatments and medicines for an eye problem, in another a co-operative had sponsored a person with cancer to get treatment, and in yet another society wheelchairs had been provided for some elderly and disabled members. In Sri Lanka we were also told of how loans may be given to poor people during the festival period, which is an expensive time for them; this *helps to reduce depression* for the poorer members. Importantly, given the recent tsunami, co-operatives in Sri Lanka had also responded as far as they could to help people affected by this natural disaster. There is a sense in all of this that the co-operative is there both collectively, "to help the membership at times of distress", and individually, "helping individual members when they face difficulties".

In the provision of *improved housing and living conditions*, co-operatives told us how they are able to provide loans for building new homes and improving the condition of members' houses. Co-operatives often give special loans for the development of water supplies and sanitary facilities; this has been popular, with more members building toilets and bathrooms in their houses. Others focus on helping to link members' houses to an electricity supply. A number of co-operatives spoke of how this has helped not only to raise living standards but also to develop members' morale and self esteem. Co-operatives in Sri Lanka have also been active in relation to *roads and transport communications*. In some cases, they have taken direct responsibility for reconstructing minor roads in the village; one society told us how it had reconstructed three roads at a cost of more than RS 360,000/=

(£1,800). Some co-operatives organise their members in communal activities such as cleaning and maintaining of roads.

However, co-operatives' involvement covers a spectrum, from lobbying the local government to build roads and get public transport into the area, to providing money for infrastructure development programmes conducted by the local government, to mediating with road construction companies and contractors, to one example where the co-operative had itself become a contractor for road construction. Co-operatives are also *able to play an intermediary role* between the government and the public in other ways, for example in the case of response to emergencies, or in the fair distribution of aid. They also play a leading role in regional public events, and contribute to religious institutions such as the local Buddhist temple. Many co-operative managers told us how their members give robust support to the co-operative in all of the above activities, and how, by taking a strong involvement in social issues, the co-operatives have become popular among the people.

Co-operatives take their *central role in their communities* seriously. Some, such as the SANASA movement in Sri Lanka have as a key principle the promotion of 'good virtue' as well as business transactions among the membership. Others told us how they see it as part of their role to socialise their members to create good citizens. Some societies have taken a proactive role in trying to reduce alcohol consumption – for example, organising lectures about the effects of alcohol abuse or encouraging their members to produce things like sweets instead of alcohol. One society told us openly that they did not provide membership for 'known drunkards'. In relation to domestic violence, many societies also take a positive role through awareness programmes and access to advice. Public lectures are organised and instructions issued to members about minimising conflicts in the family and promoting a healthy family life. Co-operatives *help solve common problems in the community*. This is one of the main contributions identified by our respondents. They are able to bring together local communities, to provide leadership to solve common problems, and to act as an intermediary between the community and local government. They are able to help develop mutual understanding between their members and to help to resolve both conflicts among members and common problems as they arise.

Some co-operatives play an active role in the provision of safe water and electricity. For example, one society told us how it was discussing with the divisional secretariat to have three phase electricity linked to their village. Another co-operative told us how they have been able to develop a dialogue with people who 'set fire to the jungle' and are responsible for deforestation. This had helped protect them from the danger of flooding and conserve the water catchment area. For the same reasons, a number of co-operatives in this particular area are engaged in tree planting programmes.

In short, we were given many excellent examples of co-operatives' achievements in reducing non-financial poverty that help to illuminate the statistics in Table 3. It should be noted that this table shows a good degree of agreement in the rank-ordering of poverty reduction indicators by co-operative managers and member-directors: at least twelve of the fifteen top-ranked indicators are repeated across all groups. However, the percentage of managers identifying particular indicators as important is generally higher than that of directors. Some might say that the managers have an incentive to over-estimate the co-operative's contribution to poverty reduction. On the other hand, one would expect managers to have more of an overview of the organisation's contribution than would an individual member. As we have shown, when we asked managers to back up their assertions, they provided detailed examples from their own experience. And the fact that the rank ordering of directors' and managers' responses is reasonably similar suggests that there is agreement on the key contributions that co-operatives make.

It is also worth noting that the survey responses vary according to the presence or absence of one or other poverty trap. For example, the percentage of respondents identifying co-operatives as being successful in helping their members escape from debt bondage traps is low, but this is likely to be a reflection of the low incidence of such traps in our case study areas rather than a reflection of co-operatives' efficacy in this area, as we know from other case studies that co-operatives are effective in locations where these traps are more prevalent (Birchall, 2003). To some extent this is also sectoral, in that some co-operative sectors are better able to address certain poverty traps than others.

How typical are these findings for other countries? We sent out a self-completion survey to national-level co-operative federations in all the countries that have been encouraged by the World Bank to develop poverty reduction strategies. Our findings from this survey largely confirm the above findings. For example, 82.4% said that co-operatives in their countries were effective at raising their members' incomes. There was also broad agreement about their co-operatives' ability to reduce non-financial poverty, with again twelve of the fifteen top-ranked indicators from Table 3 being repeated. The main differences between our international sample and our two case study countries appeared to be in the relatively strong contribution of co-operatives internationally to the provision of safe drinking water, and the provision of mutual insurance against illness and unemployment.

The comparative advantages of co-operatives

Are co-operatives better than other kinds of organisation at enabling people to escape from poverty?

All of this evidence points to co-operatives being rather good at poverty reduction. But supposing another type of organisation was better? To put resources into co-operatives would not then be the best option. In theory, there are two kinds of comparative advantage to co-operatives: general ones derived from the nature of co-operatives as member-owned businesses, and particular ones derived from specific types of co-operative. The general advantages are derived from membership. Co-operatives are uniquely member-owned, member-controlled and exist to provide benefits to members. When the purposes of the business are aligned with those of members the results are loyalty, commitment, shared knowledge, member participation, underpinned by strong economic incentives (Shah, 1996). These are the kinds of values any business organisation would want but that investor-owned business can only achieve by mimicking the idea of membership. The general disadvantages are the obverse of the advantages; when the purposes of the business are not aligned with those of the members, apathy or cynicism result, members lose interest and cease to participate. This leads to management pursuing their own interests, and to complacency and a reinforcement of oligarchic tendencies among the board.

The particular advantages of *consumer co-operatives* are that they provide people with consumption goods at the lowest possible price and with a guarantee of good value, and so make their income go further. *Producer co-operatives* enable self-employed people and family businesses to gain the strength in numbers they need to survive in the market. *Worker co-operatives* provide people with an income, but also are a way of gaining control over the conditions under which they labour, providing what the International

Table 4: The organisational comparative advantages of co-operatives

Advantages	Co-operative	NGDO	Local govt	Private firm
Ability to reach the poorest	Medium – high if aimed	High – a main aim	Low – capture by elites?	Low – profit driven
Ability to create wealth	High – a main aim	High – for- profit subsidiary	low – tax based	High – if co-operative business association
Ability to scale up	High – can grow rapidly	High – with donor support	Low – unless by imitation	Low – except by expansion
Organisational flexibility	Medium – depending on type	High – but donor pressure	Low – depends on central govt	High – in search of profits
Democratic accountability	High – membership base, some governance problems	Medium – value driven but governance problems	High – representative, legitimate	Low – few owners
Civil society strengthening	High	High	Medium	Medium
Surplus-distributing	Yes – a co-operative principle	No – surpluses absorbed	N/A	No – retained profits
Market driven	Yes	No	No	Yes
Duration of interaction with the poor	Long	Short	Long	Variable

Labour Organisation calls ‘decent work’. However, these advantages cannot always be realised; we have to take into account the extent to which co-operatives have the capacity to realise them and the intensity of competition they are facing. From an evolutionary point of view, they are in competition with other types of organisation doing the same job, and these other types also have their advantages and disadvantages.

What does the existing literature tell us about the advantages of co-operatives? Early on in our project, we reviewed the literature on the subject, and summarised this in Table 4. It is clear that co-operatives do not always have advantages over other types of organisation but that, taken together, their advantages are pretty impressive. It is also worth pointing out that co-operatives are often active where no other organisations exist. For example, while competition from the private sector is fairly strong in consumer co-operatives (88.0% of managers in Sri Lanka and 75.7% of those in Tanzania say there is competition), it is less strong in other co-operative sectors (59.4% of credit co-operative managers in Sri Lanka and 41.0% of those in Tanzania say the same). The lowest figure is 19.4% for agricultural and fishing co-operatives in Sri Lanka. Competition from NGOs was perceived to be much lower – 9.9% in Sri Lanka, for example. This means that in some locations there are few other comparable organisations that serve the population’s needs, so co-operatives fill an important niche.

Asked to identify the advantages of co-operatives, our respondents had a great deal to say. Some comparative advantages relate to the benefits that people receive from being members. Others relate more to perceptions of the way that co-operatives work, for example in the way they engender trust. Content analysis of our survey responses has helped us to distinguish a wide range of factors, including:

- Financial advantages.
- Flexibility.
- Understanding.
- Supporting production.
- Marketing support.
- Help to the poor.
- Welfare orientation.
- Wider developmental role.

- Relationship with government.
- Ability to collaborate.
- Collective empowerment.
- Democracy and accountability.
- Equality.
- Ownership.
- Unity and togetherness.
- Member/community support.
- Connectedness and reach.
- Physical proximity to poor populations.
- Importance of trust.
- Ethical business activity.

These findings will not come with many surprises to keen observers of co-operatives, as they map well on to the ICA principles that show how co-operatives ought to work. Other organisations may also show some or other of these advantages, but only in co-operatives is it possible to see them all. This suggests a 'constellation' of advantages in co-operatives that is unique to the co-operative organisational form.

When we looked at the disadvantages that managers and members identified for co-operatives, our respondents had much less to say. In Tanzania around three quarters of co-operative managers and members overall said there were 'no disadvantages', and these figures were consistent across all four co-operative sectors. In Sri Lanka, the corresponding figures were around one third in credit, agricultural/fishing and industrial co-operatives. The main exception was the (quasi-governmental) multi-purpose (consumer) co-operatives in Sri Lanka, where only 8% said there were no disadvantages. With this exception, the disadvantages were less intensely felt in the co-operatives than the advantages. The main disadvantages were:

- Financial disadvantages.
- Inflexibility.
- Lack of skills.
- Technical resource issues.
- Lack of marketing support.

- Relationship with government.
- Democracy and accountability.
- Lack of trust.

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

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

These financial advantages are all internal to the organisation. By contrast, the biggest *financial disadvantage* was external to the organisation – co-operatives across all four sectors in our two case study countries told us that a lack of financial backing was problematic. External assistance would be welcomed, although most were not looking for free handouts, just greater access to loan finance. Help was also needed with: increasing capacity to meet *demand for training: financing of capital projects*: and *providing skills and technical resources*. There was a felt *lack of marketing support*; there are limits to the amount of income that can be generated from local markets, and access to new markets was needed.

Another external disadvantage is the *relationship with government*. Some respondents complained that government undermines the self-responsibility of co-operative members through paternalism, undermines democracy and accountability through political interference, and weakens members' commitment through damaging their sense of ownership of their co-operative. *Lack of trust* arises from poorly governed co-operatives or corrupt co-operative leaders. In one sense the government is too intrusive in the co-operative's affairs, and in the other it could be argued to be too lax in regulating co-operatives that are being run badly. Poor internal governance also led to a reputation for *inflexibility*; a co-operative could acquire a bad reputation for slow and rule-bound decision-making. Here our respondents were asking for help in designing structures for good governance, and help in improving co-operative leadership.

We asked how co-operatives compared with other types of organisation, in particular, NGOs and the private sector. NGOs were seen by our key informants as being largely irrelevant to co-operatives; they come and go, running projects that do not have lasting effects, and are more of an irritant than a competitor. Survey respondents agree; only 10% say there is competition from NGOs. The exception is in the Sri Lankan micro-credit sector, where Sanasa competes with two similar membership-based credit societies: the government-sponsored Samurdhi banks and the NGO-sponsored Sarvodaya Movement. Here, politicians have recently suggested that these be merged into Sanasa, which has the better track record for sustainability, and has a vertical structure of federation and a national bank that the others cannot match.

Our key informants told us that competition from the private sector is strong and growing. From the survey, we learn that 40% of managers in Sri Lanka and 30% of managers in Tanzania thought that private sector competition was important, but the effects vary by sector and by distance from the more active markets. Competition is strong in multipurpose and consumer co-operatives (88% of managers in Sri Lanka and 76% of those in Tanzania say there is competition), but less strong in other co-operative sectors (59% of credit co-operative managers in Sri Lanka and 41% of those in Tanzania say the same). The lowest figure is 19.4% for agricultural and fishing co-operatives in Sri Lanka, but this may be a sign that there is not much output from these sectors over which the private sector wants to compete.

Is there a level playing field between co-operatives and private traders? Some managers in Sri Lanka said "co-op paperwork takes longer" due to over-regulation, and that this is off-putting for members. Similar concerns were identified in Tanzania, where private firms were thought not to be regulated as severely as co-operatives. There was a general concern that the quality of products such as coffee was much lower in the private sector and that this was 'interfering' with the market. There were also concerns that the competition was leading to a loss of members, and with this a reduction in the co-operative's capital base. In some co-operatives, there was concern that they were being driven out by large firms offering artificially low short-term prices that they could not compete with. Others were being disadvantaged by providing flexible terms for loan repayments; members borrowed from both co-operatives and banks but paid back their bank loans first! However, when we asked about differences in quality between co-operative products and those of other local businesses, only a small minority of respondents said that the quality of co-operative products was worse.

Support needed by co-operatives

How can co-operatives be supported to reach their potential in poverty reduction? In the survey, while most co-operative managers were able to identify ways in which their co-operatives helped to alleviate poverty, they also felt they were being held back. 92% of co-operative managers in Sri Lanka and 71% in Tanzania said that they could do more to help raise their members' incomes. A common theme was the need to scale up the business through both expansion and diversification.

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

Almost all of the factors we identify above from our local survey of primary co-operatives are repeated in the responses we received in our international survey; there was the same self-confidence about the comparative advantage of co-operatives, compared to the private sector and its pursuit of private profit for individuals, the 'controlling' and 'dominating' (rather than facilitating) characteristics of government, and the 'unsustainable' nature of NGOs' activities. The major disadvantage remained that other sectors had more resources – both technical and financial – to support their work.

The legacy of history and the co-operative reform process

We now turn to some of the evidence provided by our key informants. Much more than the survey respondents, they emphasise the importance of the history of their countries and of the co-operative sectors. They are concerned about the ways in which governments and political parties have tried to control co-operatives in the past, and in some cases are still threatening the autonomy of co-operatives. In particular, the Sri Lankan interviewees described the multi-purpose co-operatives as being quasi-governmental, under the control of politicians rather than of their members, and over-regulated by the co-operative commissioners at both national and local levels. The Tanzanian interviewees talked proudly about the reform process which began a few years ago and which has left the co-operative sectors much more free than before. However, they warn that the reform process is not yet complete, and that government interest in the SACCOS makes them vulnerable to being used once again as 'tools' of development.

They told us that primary co-operatives' relationships with other organisations – including sometimes their own federations – was often patchy and piecemeal, leaving them feeling isolated and inert. When they become isolated from other actors in their environment, co-operatives can themselves find themselves caught in 'organisational traps'. Their strongest relationships were often with those exerting an influence over them, rather than with equal partners. This was particularly true where the central Registrar of Co-operatives exercised strict regulation over co-operatives' functions. We identify four aims that together comprise the 'destination' of co-operative reform:

1. An autonomous co-operative sector, self-regulating and free to go in whatever direction the members choose, subject to the co-operative principles.
2. Light regulation of the process by government, which registers and (in cases where co-operatives are corrupted) deregisters them just as it would another form of limited liability company or association.
3. An enabling environment for co-operatives that provides equal treatment with other types of business.
4. A partnership between government and co-operative sectors in which supports are given so that the full potential of the form is realised.

Table 5 sets out a checklist of actions needed for a co-operative reform process to work, which we have used to plot differences in the level of reform in each of our case study countries. The potential of co-operatives to reduce poverty will only be realised if the reform process continues and is successful in keeping vested interests out – and members fully in control – of their societies.

Table 5: the reform process in Tanzania and Sri Lanka compared

Elements of reform	Tanzania	Sri Lanka
Reform champions emerge who are influential with govt	Yes, including key players	Yes, but not at centre of govt and outside the MPCS system
Coalition with political resources	Yes	No
Objective state of the movement report is made by experts	Yes in 2000, Presidential Commission leading to reform process	Yes in 2001, Presidential Commission but leading nowhere
New co-operative law is drawn up	Yes	Yes
New co-operative law is enacted	Yes, in 2003	No, and not likely to be in near future
New byelaws are drawn up for co-operatives	Yes, and disseminated by Co-operative Registrar	No

Elements of reform	Tanzania	Sri Lanka
Changes made at regional, district levels	Beginning	No
Budget allocated by central govt	Yes, but is it enough?	No, but Sanasa movement gets aid from international donors
Education campaign among co-operative members	Yes, begun in 1996 through Memcoop programme, but will it continue?	No, but ongoing work in Sanasa societies
New elections for the board	Yes, in staged progress through regions	No
Debts forgiven, new financial basis for co-operatives	Yes, 23bn shillings of debt to public authorities written off	No, but around half of the MPCSs are insolvent
Leadership, management training, access to finance	Yes, as part of reform process	No, but Nisped project targets co-operatives in Tsunami region
Business strengthening programmes are begun	No, but coffee co-operatives benefit from fair trade partnerships	No, but Sanasa is continually trying to strengthen primaries
Support is given for product development, opening up of markets	Yes, but by northern fair trade organisations, co-operatives	Yes, but by northern fair trade organisations, co-operatives
Primary co-operatives are encouraged to link up to form secondaries, business ventures	Yes, Kilimanjaro Bank, and primary export co-operatives are bypassing old district unions	Not in MPCSs, but in Sanasa co-operatives own a development bank and associated businesses
Apex co-operatives are formed or reformed	Yes, but capacity of TFC is in question	Not in MPCS system, but Sanasa societies invest in bank, associated businesses
New national-level business arms are created to support Primary co-operatives	No, but feasibility of a Co-operative Bank is being studied	Yes, through Sanasa, women's co-operative bank

Conclusion

What will it take for co-operatives in developing countries to make an impact on poverty and the Millennium Development Goals? We have to admit that the wider environment is crucial. Without country-level improvements that guarantee peace, fair terms of trade and good governance, co-operative members may well feel the problems are too great. The four traps identified by Paul Collier have to be released if we are to stand any chance of developing sustainable co-operatives.

However, we do not have to wait for solutions to come from on high; co-operatives can be part of this process. When we first started our project, not many national poverty reduction strategies mentioned co-operatives. This omission is now being rectified, and the importance of agricultural co-operatives and savings and credit co-operatives in particular is being recognised by governments. However, our key informants told us that co-operatives need more voice in the policy process. Co-operative federations need strengthening in their capacity for engaging with government and policy-makers at national level. In some countries, such as Uganda, the apex co-operative federations have collapsed and so there is a void at the level where co-operatives should be engaging with government. In these cases, primary co-operatives need to be encouraged to set up new, genuinely democratic federations.

The co-operative reform process needs to be driven forward by government ministers and their co-operative registrars, and vested interests need to be challenged at the highest level. We have noted how the process has begun in Tanzania but has hardly got started in Sri Lanka. In other developing countries the process is at different stages, but it can always go into reverse; if politicians cease to respect the autonomy of co-operatives then the mistakes of history will be repeated. Where reform has stalled, the International Co-operative Alliance, International Labour Organisation, and other international agencies concerned with co-operative promotion should be pressurising governments to engage in a genuine reform process.

The lack of effective national co-operative institutions points to another problem. In order to grow their businesses, primary co-operatives need to scale up through establishing secondary-level business associations. The Sanasa Development Bank in Sri Lanka shows what can be achieved when primary co-operatives and their federations decide to go to the next stage and own their own national bank. Many primary co-operatives are very isolated, particularly those situated in remote rural areas. Co-operatives need to begin to establish business relationships with other co-operatives in order to share costs and risks and to innovate and develop new products. To do so they need technical help and some financial support from donor agencies, but here we come up against another problem; donors can unwittingly cause damage by imposing their own values and ignoring the real needs of co-operatives. They should be careful not to compromise co-operatives' 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. In our interviews we were told that many NGOs do not understand the nature of co-operatives, and so are ineffective in developing genuine, member-controlled businesses. In contrast, we were impressed by the way in which co-operative movements in the North are providing the right kind of help through development agencies such as Canadian Co-operative Association and Desjardins International. Their technical support staff really understand what co-operatives are all about.

What should be the role of governments? They should be working on specific problems. There is a need for a clear and sympathetic legal structure and institutional support for co-operatives. Governments should heed the provisions of ILO Recommendation 193, working with rather than against co-operatives to enhance their role in economic and social development. Another problem governments can help with is the chronic lack of capital; the financial capacity of co-operative sectors can be improved by making funds available to a central co-operative bank for on lending to primary co-operatives. There is a problem of lack of capacities in many co-operatives. Government assistance should be targeted at education programmes for members and capacity building among leaders and managers. There is a problem of lack of access to markets, with physical constraints such as lack of roads and legal constraints such as restrictions on exports and on cross-border trade. These are also problems governments can tackle, providing improved access to regional and international markets and cutting down on unnecessary bureaucracy.

What should be the role of co-operative societies in the Northern countries? Co-operatives in the North have often raised money for the South, particularly at times of disasters such as the Tsunami. Much of their assistance goes into funding conventional aid agencies and NGOs that know little about co-operatives. Instead, they should be supporting their own specialist co-operative development agencies to provide movement to movement assistance. They should be entering directly into business partnerships with co-operatives in the South in order to develop fair trade.

The good news is that there is plenty that co-operative members in the developed world can do to support the Millennium Development Goals and help 'make poverty history'. Instead of just watching pop concerts and giving money to charities, we can work together with co-operatives in the developing world in an equal partnership based on fair trade. Together, we can help people to escape from poverty traps and make their own poverty 'history', while giving new meaning to the principle of 'co-operation between co-operatives'.

Appendix: Methodology

A range of methods were used in this study:

Level 1	Local	Face-to-face survey of primary co-operative managers Postal survey of primary co-operative member-directors
Level 2	National	Key informant interviews Documentary analysis
Level 3	International	Key informant interviews Documentary analysis International survey with member organisations of the International Co-operative Alliance (ICA)

At the *local* level, we conducted a face-to-face survey of primary co-operatives. We worked with co-operative registrars in each country (Tanzania and Sri Lanka) to construct our sample. Three regions in each country were selected (one rural, one urban, one peri-urban), and a list of active co-operatives of four types was compiled: consumer, credit, agricultural/fishing and manufacturing/industrial co-operatives. The final sample was then selected randomly from this list. Letters and information leaflets were translated and sent to each sampled organisation, and their informed consent obtained. We trained postgraduate students from local universities to do the field research: in Sri Lanka Sabaragamuwa, Ruhuna and Colombo Universities, in Tanzania Dar es Salaam University and Moshi University College. Interviews were then conducted face-to-face with the managers of primary co-operatives in their preferred language, achieving a response rate of 80-90%. Interviewers left behind shorter, self-completion questionnaires with pre-paid envelopes for member-directors to complete and return. This resulted in a dataset of more than 475 co-operative managers and 250 member-directors. Supervision and monitoring of these surveys were conducted directly by the research team, with support from senior colleagues at local universities.

At the *national* level, we analysed policy documents, financial reports and other written materials. We conducted semi-structured interviews with key informants from the co-operative sectors, government, international agencies, donor organisations, NGOs, and the private sector: 30 in Tanzania and 28 in Sri Lanka. At the *international* level, we interviewed key informants from 18 organisations and several specialist consultants. We conducted a content analysis on poverty reduction strategy papers (PRSP) from 66 countries to show the extent to which co-operative sectors are recognised. Finally, we devised a questionnaire to co-operative apex organisations in other PRSP countries, receiving replies from 19 organisations. Based on the instrument we used with primary co-operatives in Tanzania and Sri Lanka, it provided a way of measuring just how typical were our two case study countries.

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the co·operative college

The Co-operative College
Holyoake House
Hanover Street
Manchester
M60 0AS
UK

Tel: +44(0)161 246 2926
Fax: +44(0)161 246 2946
Email: cfd@co-op.ac.uk
College Website: www.co-op.ac.uk
Co-operatives for Development Website:
www.internationaldevelopment.coop

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