

Cooperatives: Pathways to Economic, Democratic and Social Development In the Global Economy



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The Overseas Cooperative Development Council is a voluntary association of eight cooperative development organizations representing diverse economic sectors. Its mission is to champion, advocate and promote effective international cooperative development. See Appendix II for brief descriptions of OCDC member organizations.

This document is available electronically at
<http://www.coopdevelopmentcenter.coop/>

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August, 2007

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Executive Summary

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 as they have in the United States and in other OECD countries. The audience for this document includes U.S. and international donors, government leaders, academics and cooperative leaders who are committed to expanding their global involvement.

The rise of global markets and the fair trade response, democratization and resurgence of civil society, and the demise of socialism, have all led to a cooperative renaissance in developing and transitional economies. This trend is taking place at a crossroads in the history of international development where developed countries are re-examining their foreign assistance portfolios in light of contemporary threats and opportunities, and expanding their strategic linkages to the developing world.

Worldwide, donors, governments and citizens have become more concerned about accountability in foreign assistance and are examining the effectiveness of their international development programs in terms of effecting true local, regional and national change. The United States, for example, has recently begun articulating its foreign policy agenda around a paradigm of “transformational development.” This represents a move beyond *stability* as a goal, to the *transformation* of economies and societies – fundamental changes in economic structures, governance and institutions, and human capacity, so that countries can sustain further economic and social progress without continued dependence on foreign aid. As well, private sector investment in developing and transitional economies has grown over the last 20 years and has now eclipsed public sector foreign aid. As private sector investment moves into developing country markets, 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 (especially addressing HIV/AIDS).

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, rural electricity, 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.

In some development circles, cooperatives have suffered from a negative legacy, the result of having operated in the face of obstacles such as tight control by repressive governments, inappropriate policy environments, flawed markets for products, and difficulty emerging from dependency to make a large scale impact. Despite these challenges, cooperatives have overcome obstacles and shown notable accomplishments at an impressive scale that are described herein, including: 100,000 dairy cooperatives in India with 12 million members; rural electric cooperatives in Bangladesh that serve approximately 28 million people; over 800 rural credit cooperatives in Russia with 92,000 members; insurance co-ops insuring two million people in Colombia; credit union movements in Ecuador and Kenya, both with over a million members; and Fair Trade-certified coffee cooperatives in Ethiopia, Rwanda, East Timor, and Central America that link thousands of smallholder farmers directly into global markets with premium coffee prices.

This paper highlights contemporary accomplishments and long-term potential of cooperatives in developing countries where economic, democratic and social transformation is the goal. It provides examples of how the cooperative business model helps low income developing country individuals **economically** by improving incomes and creating value and investment opportunity along product supply chains in today's global economy; **democratically** by providing firsthand experience with democratic governance, transparency and member participation; and **socially** by increasing trust and solidarity, leading to stability in the face of adversity and conflict.

To capitalize on these successes, a forward looking international network of researchers and practitioners is needed to bring new analytical and practical methods to the advancement of cooperative development in the global economy and dispel outmoded assumptions about co-ops. Policymakers and donors have a key role to play in allocating adequate resources to foster the potential contribution of the cooperative business model to equitable economic growth, democratization, conflict prevention and resolution and social development worldwide.

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 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. Fair Trade organic and specialty coffee, cocoa, tea, bananas and other products are sold directly to Fair Trade purchasers and are increasingly available at major grocery stores or chains like Starbucks Coffee Company. 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 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. 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.

B. Developments in Foreign Assistance Policy

Developed countries are reexamining their foreign assistance portfolios in light of contemporary threats, but also in light of global business opportunities and the need for strategic linkages to the developing world. Worldwide, donors and governments are evaluating the effectiveness of international aid in terms of affecting true local, regional and national change.

In the United States, the *Support for Overseas Cooperative Development Act* was passed by Congress on October 17, 2000.¹ The legislation states that: “*In order to strengthen the participation of the rural and urban poor in their country's development, high priority shall be given to increas-*

ing the use of funds made available under this chapter for technical and capital assistance in the development and use of cooperatives in the less developed countries which will enable and encourage greater numbers of the poor to help themselves toward a better life." It states that priority should be given to:

- 1) *Agriculture* - Technical assistance to low income farmers who form and develop member-owned cooperatives for farm supplies, marketing, and value-added processing;
- 2) *Financial systems* - The promotion of national credit union systems through credit union-to-credit union technical assistance that strengthens the ability of low income people and micro-entrepreneurs to save and have access to credit for their own economic advancement;
- 3) *Infrastructure* - The support of rural electric and telecommunication cooperatives for access for rural people and villages that lack reliable electric and telecommunications services; and
- 4) *Housing and community services* - The promotion of community-based cooperatives which provide employment opportunities and important services such as health clinics, self-help shelter, environmental improvements, group-owned businesses, and other activities.

As well, overall, United States foreign assistance policy has been reframed to focus on development as a key element of national security strategy. Cooperative development can make an important contribution to the agenda that has been set forth. In 2002, the *U.S. National Security Strategy*² elevated development to the "third pillar" of U.S. foreign policy, on equal footing with defense and diplomacy. That same year, *Foreign Aid in the National Interest*³ summarized the changing global context and focused the U.S. development assistance agenda on six key issues: 1) promoting democratic governance; 2) driving economic growth; 3) improving health; 4) mitigating conflict; 5) providing humanitarian aid; and 6) accounting for private foreign aid.

The Millennium Challenge Corporation (MCC) was established in 2004 to administer the Millennium Challenge Account. MCC represents a "new compact for global development," which links increased contributions from the United States to greater responsibility from developing nations. Through MCC, development assistance is provided only to countries that rule justly, invest in their people, and encourage economic freedom. Congress provided nearly \$1 billion in initial funding for FY04 and \$1.5 billion for FY05. MCC "compacts" with countries address an agenda that cooperatives can help advance: 1) reducing poverty through economic growth (via investments in agriculture, education, private sector development and capacity building); 2) rewarding good policy (governing justly, investing in citizens, encouraging economic freedom); 3) operating as partners (commitment from host governments and a multi-year plan for achieving development

objectives; and 4) focusing on results (clear objectives, benchmarks, fiscal accountability and a plan for effective monitoring and evaluation).

In 2005, the *Fragile States Strategy*⁴ further emphasized that conditions in failed, failing or recovering countries could represent a threat to the security of the United States and to the broader international community. It called for "broad engagement in a coordinated and strategic manner to address the core issues of poverty and underdevelopment." Things that cooperatives have always done – strengthening democracies, giving people economic opportunity, building free markets and fighting corruption – are identified in the *Fragile States Strategy* as actions that are imperative in nations that might otherwise become breeding grounds for terrorism. As well, in early 2006, *A Policy Framework for Bilateral Foreign Aid*⁵ articulated how U.S. bilateral foreign assistance would be used to build a safer and more secure, democratic and prosperous world around an integrating concept of "transformational development." This represents a move beyond *stability to transformation* of economies – fundamental changes in governance and institutions, human capacity and economic structures so that countries can sustain further economic and social progress without depending on foreign aid.

In October of 2006, The U.S. Office of the Director of Foreign Assistance released a country level *Foreign Assistance Framework*.⁶ The framework categorizes countries as: 1) rebuilding (rebuilding after internal or external conflict); 2) developing (low to lower middle income, not yet meeting MCC criteria); 3) transforming (low to lower middle income, meeting MCC criteria); 4) sustaining partnership countries (upper middle income or greater where U.S. support is provided to sustain partnerships, progress and peace); and 5) reforming countries (countries of concern with significant governance issues). It categorizes foreign assistance objectives as: 1) peace and security; 2) governing justly and democratically; 3) investing in people; 4) economic growth; and 5) humanitarian assistance. Cooperatives have contributions to make to the economic, democratic, and social objectives at the heart of this framework and to the end goals of economic growth and poverty reduction, democratic governance, and civil society development.

Documentation of the vast extent of *private sector investment* in developing countries, both through business and philanthropy, is relatively new on the landscape. According to the Global Development Alliance, in the 1970s, 70 percent of resource flows from the United States to the developing world were from official development assistance and 30 percent were private. Today, 85 percent of resource flows from the United States to the developing world are private and 15 percent are public. These changes in flows reflect the emergence of the private for-profit sector and the non-governmental sector as

significant participants in the development process.⁷ While there is great variation in the amounts received by countries (with least developed countries receiving the smallest amount of private capital flows) overall, private resource flows have had a dramatic impact on development. To further advance private business investment, *The Overseas Private Investment Corporation (OPIC)*, a U.S. government agency, helps U.S. businesses invest overseas, complementing the private sector in managing risks associated with foreign direct investment and supporting U.S. foreign policy. OPIC considers projects involving U.S. cooperatives and small businesses to be a priority, and recently opened the Small Business Center (SBC), which provides financing to help small American companies with annual revenues under \$35 million reach new markets. OPIC offers financing and political risk insurance to eligible U.S. companies, and supports the creation of privately owned and managed funds that make direct investments in new, expanding, or privatizing companies around the world. OPIC supports, insures and finances investment projects with substantial U.S. participation that are financially sound, promise significant benefits to the social and economic development of the host country, and foster private initiative and competition.⁸ For the last thirty years there has been a seat on the OPIC Board reserved for cooperatives. U.S. cooperatives can take advantage of OPIC to foster new business linkages in the developing world.

The World Bank Group's *Strategic Framework*⁹ identifies "empowering poor people to participate in development and investing in them" as one of two key pillars underpinning the Bank's efforts to reduce poverty. One of the major thrusts of the rural development strategy¹⁰ is "integrating the needs of the rural poor in national policy dialogues," a process which must include a broad base of stakeholders, including cooperatives. Rural producer organizations such as cooperatives are recognized by the Bank for their important contributions to food security as well as their participation in rural development policy making, natural resource management and building profitable businesses.¹¹ Like USAID, the Bank has also placed considerable focus on fragile states, which it identifies by weak performance on the Country Policy and Institutional Assessment (CPIA). These countries have low capacity to deliver services or control corruption and they are at risk of instability. Of 26 countries with civil conflicts between 1992 and 2002, 21 were also low-income countries under stress (LICUS) during this period. LICUS countries have twice the poverty and child mortality rates of other low-income countries.¹²

In sum, the classic principles, values and accomplishments that have been the hallmark of cooperatives for decades can make an important contribution to contemporary bilateral and multilateral foreign assistance efforts. Economic development is the linchpin of transformational

development and countries will not be transformed without the economic development and wealth generation that cooperatives can help foster. But co-ops also bring social inclusion and experience with democratic institution building to the table, demonstrating the strong correlation between economic and social progress and democracy in developing countries. Cooperatives are dedicated to democratic and accountable governance and service to their members and they can contribute to rebuilding the political, economic and social fabric of countries that are presently being damaged by conflict and violence.

II. THE COOPERATIVE ADVANTAGE

A. Definitions and Types of Cooperatives

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 parastatal, 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. 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.*"¹³

Ownership and control by members, who usually have one vote per person, is a key aspect of cooperatives. Cooperatives differ from other forms of enterprise in that their owners invest in order to create a business that will benefit them through their patronage, not from appreciation in the value of, or return on, their equity.

Cooperatives raise equity or savings from their members and are designed to provide services to their users as their priority. Cooperatives return surplus revenues to members proportionate to their use of the cooperative. The Ohio Cooperative Development Center¹⁴ cites three key principles:

- *User-owned* – users finance the cooperative;
- *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. Trust – the linchpin of cooperation – is built and strengthened when the business is owned by those who use its services, is governed by elected leaders who are users, is locally-owned and controlled and whose customers democratically elect their policy body.

A cooperative is not a parastatal. Many organizations in the developing world are called cooperatives, but in reality are government-established parastatals. Membership is often compulsory and civil servants are assigned to management and even board positions. These organizations are instruments of official economic policy and channels for government services, such as farm credit, the supply of agricultural inputs, and marketing. The members of these cooperatives consider them to be state agencies. Government-controlled parastatals are not true cooperatives.

A cooperative is not technically the same as an association. Although some cooperatives may also call themselves associations, for an organization to be a true cooperative, it must be a member-owned business, returning surplus revenues to its members.

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.

COMPARISON OF COOPERATIVES,

Attributes

Ownership

Control

Board Membership & Compensation

Board Nomination & Elections

Accountability

Earnings/Dividends

Purpose/Motivation

Source of funds/Generation of Money

Community

CORPORATIONS, AND NONPROFIT ORGANIZATIONS

Cooperatives	Investor-Owned Corporations	Nonprofit Organizations
Member-owned	Investor-owned	Generally not "owned" by a person or members
Democratically controlled; one-member, one vote basis; equal voice regardless of their equity share. Members are involved in the day-to-day business operations and receive services for their input.	Controlled by shareholders according to their investment share. Business decisions and policy are made by a board of directors and corporate officers.	May be controlled by members who elect a board of directors or, in non-membership organizations, the board of directors may elect its own successors. Control is maintained by those not receiving the services.
Made up of co-op members elected by the members. Usually, they do not work for the co-op. Cost reimbursed for board meetings. Board members usually serve on an uncompensated, volunteer basis.	Board is comprised of a combination of independent directors, management and other directors with financial or business ties to the organization. CEOs may serve as the board chair. Significant financial compensation is provided for board service.	Board is generally made up of people who do not receive the services, usually chosen for philanthropic or political reasons. Board members usually serve on a volunteer basis.
Candidates nominated by membership either directly, or by a nominating committee made up of members. Usually, any member can nominate a director candidate. Board is elected by the members on a one-member, one vote basis.	Candidates nominated by the board of directors and management, often by a nominating committee. Shareholders have limited ability to nominate and elect director candidates.	Either by members or the board of directors.
The board is directly accountable to members through nomination and election procedures.	Board election and nomination procedures afford little oversight opportunity to shareholders. Shareholders are not likely to be able to remove board members.	Generally accountable to members of the organization and those who provide the funding to the organization.
Any surplus revenues (profits) earned by the co-op are reinvested in the business and/or returned to members based on how much business they conducted with the co-op that year. Many co-ops are obligated to return a portion of their "surplus revenues" to members each year. Members share losses and earnings.	Profits returned to shareholders based on ownership share. Corporations are generally not obligated to pay out dividends. Timing and amount of dividend payout are determined by the board of directors.	Re-invest any profits they make in their public benefit purpose and their own operations.
Maximize customer service and satisfaction.	Maximize shareholder returns.	Primary motivation is to serve in the public interest. Redistribute resources to provide educational, charitable and other services.
Raise resources through the equity of members: 1) direct investment; 2) retained margins; and 3) per-unit capital retains (capital investments based on the number of physical units handled by the co-op or on a percentage of sales).	Typically raise money through capital markets.	Typically funded by donations from the private or public sector or the government. Tax-exempt.
Promote and assist community development.	May engage in selected community philanthropic activities.	Serve as a mechanism for collective action based on a common good.

B. Cooperative Principles and Values

Six cooperative principles were drafted by the International Cooperative Alliance (ICA) in 1966, based on guidelines written by the founders of the modern cooperative movement in England in 1844. In 1995, the ICA restated, expanded and adopted the 1966 principles to guide cooperative organizations into the 21st Century.¹⁵

COOPERATIVE PRINCIPLES AND VALUES

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.¹⁶

In the U.S., where co-ops have been an important part of economic development, there are an estimated 43,000 cooperatives with over 140 million members, including 90 million members of credit unions. Co-ops provide rural electrification to 35 million consumers and cover nearly 80 percent of the U.S. land mass. Dairy cooperatives control approximately 80 percent of dairy production, and most of the specialty crop producers in California are organized into co-ops. Well-known cooperative brand names include Land O'Lakes, Welch's, Sunkist, Blue Diamond and Ocean Spray.

The top 100 U.S. cooperatives increased revenues by almost \$15 billion in 2004, a 14 percent gain from the same period in 2003. This is the highest-ever annual revenue, demonstrating the continuing vital role of cooperatives in the marketplace.

In Europe, there are 58,000 cooperatives with 13.8 million members. One in four Canadians is a member of a credit union, and approximately 70 percent of all financial transactions take place through Desjardin credit cooperatives in Quebec. Mondragon worker cooperatives dominate industrial production in the Basque region of Spain and La Lega co-ops in Northern Italy have 80,000 members. 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 farmers, Rabobank specializes in agricultural lending.¹⁷

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.¹⁸

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.¹⁹

Top 50 Co-ops in the U.S. for 2004* (\$ in millions)

Rank by Revenue	Cooperative	Revenue	Total Assets	Industry	Rank by Revenue	Cooperative	Revenue	Total Assets	Industry
1	CHS Inc.	\$11,051	\$4,031	Agriculture	28	National Cable Television Cooperative	1,167	195	Energy & Communications
2	Dairy Farmers of America	8,494	2,408	Agriculture	29	Ocean Spray	1,113	885	Agriculture
3	Land O'Lakes, Inc.	7,676	3,200	Agriculture	30	Associated Wholesalers, Inc.	1,088	155	Grocery
4	Wakefern Food Corp.	7,116	1,098	Grocery	31	Affiliated Foods, Inc.	1,082	133	Grocery
5	TOPCO Associates LLC	5,000	200	Grocery	32	Central Grocers Cooperative	1,048	197	Grocery
6	Associated Wholesale Grocers	4,574	757	Grocery	33	American Crystal Sugar Co.	1,033	822	Agriculture
7	ACE Hardware	3,289	1,271	Hardware & Lumber	34	Cooperative Finance Corporation (NRUCFC)	1,006	21,350	Finance
8	Unified Western Grocers	3,040	702	Grocery	35	Sunkist Growers, Inc.	975	175	Agriculture
9	Do-it-Best Corp.	2,727	658	Hardware & Lumber	36	Affiliated Foods Midwest Co-op Inc.	975	134	Grocery
10	Ag Processing Inc.	2,664	748	Agriculture	37	Dairyland Cooperative Inc.	963	131	Agriculture
11	California Dairies, Inc.	2,536	588	Agriculture	38	AgFirst Farm Credit Bank	956	18,994	Finance
12	Group Health Cooperative	2,117	1,004	Healthcare	39	Riceland Foods, Inc.	924	434	Agriculture
13	GROWMARK, Inc.	2,080	910	Agriculture	40	ENAP, Inc.	901	65	Hardware & Lumber
14	HealthPartners, Inc.	2,078	1,061	Health	41	Seminole Electric Cooperative	897	958	Energy & Communications
15	True Value Corporation	2,024	656	Hardware & Lumber	42	Recreational Equipment, Inc.	888	542	Recreational
16	Agribank, FCB	1,933	41,717	Finance	43	U.S. AgBank, FCB	886	19,425	Finance
17	CF Industries, Inc.	1,651	1,547	Agriculture	44	Plains Cotton Co-op Association	880	192	Agriculture
18	Foremost Farms USA Cooperative	1,443	352	Agriculture	45	MFA Incorporated	860	333	Agriculture
19	CoBank	1,413	32,045	Finance	46	MD & VA Milk Producers Cooperative Association	822	116	Agriculture
20	Staplcotn, Inc.	1,393	226	Agriculture	47	North Carolina Electric Membership Corp.	803	1,143	Energy & Communications
21	Associated Food Stores	1,374	365	Grocery	48	Associated Electric Cooperative Inc.	798	1,494	Energy & Communications
22	Navy Federal Credit Union	1,360	22,897	Finance	49	Associated Grocers, Inc.	795	157	Grocery
23	Associated Milk Producers Inc.	1,319	249	Agriculture	50	United Dairymen of Arizona	787	71	Agriculture
24	Oglethorpe Power Corporation	1,313	4,813	Energy & Communications					
25	WestFarm Foods	1,297	316	Agriculture					
26	Southern States Cooperative	1,294	436	Agriculture					
27	Prairie Farms Dairy Inc.	1,184	480	Agriculture					
Total (mil)							\$103,790	\$192,520	

*Extracted from NCB Co-op 100, 2004

The International Cooperative Alliance, formed in 1895, represents some 230 member organizations in 100 countries that have 750 million individual members. International Raiffeisen Union has 77 members in 41 countries, and the World Council of Credit Unions has 123 million members who belong to 40,000 credit unions in 86 countries. The International Cooperative and Mutual Insurance Federation (ICMIF) represents more than 184 insurance companies in 70 countries with seven percent of the world's premiums.²⁰

The cooperative model transferred from Europe to developing countries as part of the consolidation of colonial rule has had a mixed record. It was largely controlled by governments, not by members, and often served as a means to organize farmers to provide products to the homeland. Similarly, the former Soviet Union promoted cooperatives as top-down organizations controlled by the state. Despite colonial approaches to cooperation, however, some exceptional cooperatives did develop in former colonial territories. Several once Socialist nations produced some co-ops that carried forward traditions of

cooperation. They took varying approaches which, in Poland for example, maintained the fertility of the soil for cooperation.

Compared to developed countries, developing country cooperatives have not had as pervasive an economic clout. Cooperatives suffer from a negative legacy in some countries, having failed in the past in the face of obstacles such as repressive governments, corruption, and inappropriate policy environments. However, outstanding exceptions are cited in subsequent sections of this paper.

D. Pathways Out of Poverty in the Developing World

Alleviating global poverty is one of the most significant challenges society faces today. The Millennium Development Goals, drawn from the United Nations Millennium Declaration, are helping to raise awareness of global poverty and goal one (of eight) targets reducing poverty and hunger by half by 2015.²¹

There are many important ways to help developing countries, including immediate relief and other types of development assistance that can serve as a bridge to helping people eventually help themselves. But, within a transformational development paradigm, the key is to move beyond *stability* as a goal, to the *transformation* of economies – fundamental changes in economic structures, governance and institutions, and human capacity so that countries can sustain further economic and social progress without depending on foreign aid. Eliminating this dependency is the goal of development.

For years, cooperatives have been dedicated to conducting business in a way now being recommended as the most effective route to transformational development: putting people in charge of their own destinies and helping them bring services to their communities; increasing decision making, trust and accountability through democratic participation; providing a profitable connection to the private sector; building and protecting assets at the community level; limiting the role of government; and working together to resolve problems in post-conflict situations. The cooperative business model that has successfully helped build the economies of the developed world can be applied to an even greater extent today to help developing country entrepreneurs climb out of poverty and find their niche in the global economy.

Cooperating Out Of Poverty: The Global Cooperative Campaign Against Poverty, initiated jointly by The International Labor Organization (ILO) and the International Cooperative Alliance (ICA), emphasizes that cooperative enterprises are “the only form of organization meeting so fully all the dimensions of poverty alleviation as summarized by the World Bank: opportunity; empowerment and security.”²² The campaign has led donor

agencies (which may not understand the full potential of the cooperative business model) to issue a call to action to individual cooperatives in developed countries to create a global network of enterprise-to-enterprise cooperation, and provide a boost to the achievement of the goals of the Millennium Summit.

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 hustings; 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 such as health care and HIV/AIDS education.

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.”

Kofi Annan, former United Nations Secretary-General²³

ECONOMICALLY, cooperatives effectively reduce market barriers that would typically impede groups in developing and transformational countries from fully participating in the economic sphere. Cooperative businesses allow entrepreneurs to:

- Generate economies of scale that reduce transaction costs and/or increase incomes through volume sales;
- Increase efficiencies along the value chain through greater access to information and networks;
- Improve the quality and value-added of products, by allowing members to learn new skills and leverage technologies among and between themselves;
- Increase access to capital through joint-pooling of resources into cooperative financial arrangements; and
- Gain substantial bargaining power through collective action.

A. Creating Economic Opportunity

Poverty impedes overall economic growth and, unless the constraints affecting the poor are addressed in developing countries, 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, India, and other dynamic Asian economies.

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 and/or global economies. Such market failures include: imperfect competition (particularly that caused by the presence of monopolies or oligopolies such as state-owned enterpris-

es), 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.²⁴

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.”²⁵

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. Mellor²⁶ 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. Unfortunately, investments in agriculture and rural development made by donors and developing countries alike have eroded in recent years.

Overall, the contribution of the rural area to national economies has been seriously underestimated. *Beyond the City: the Rural Contribution to Development* is the World Bank's major annual research study on Latin America and the Caribbean.²⁷ The report evaluates the effects of the rural sector on national growth, poverty reduction and environmental degradation both in rural areas and the rest of the economy, as well as the public policies that can enhance its contribution to overall national development. According to this study, while natural resource activities in rural areas only account for 12 percent of regional GDP, their effect on national growth and poverty reduction is nearly double that amount, due to the forward linkages to other economic activities and their high contribution to exports. In addition, the rural population in the region is actually 42 percent of the total population, almost double the official estimate of 24 percent, when measured by the Organization for Economic Cooperation and Development criteria for defining "rurality" (population density and distance to major cities). Rural poverty problems in Latin America and in all regions of the developing world need much more attention and more adequate development-stimulating public policies.

In rural areas, individual empowerment is a direct result of well-managed agricultural development. Agricultural growth among small- and medium-scale producers, who may only be part of local rather than regional and international markets, can be achieved through cooperation. 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.³⁰

India's Dairy Cooperatives and the National Dairy Development Board offer an example of the potential scale of the impact of cooperatives in bringing grassroots farmers out of poverty and connecting them with markets. The National Dairy Development Board (NDDB) was established in 1965 to help grassroots Indian milk producers reach markets and obtain inputs and services. Its creation was rooted in India's recognition that its progress lies largely in the development of rural India. "Operation Flood," a program extending over 26 years, was funded by World Bank loans and made dairying a vehicle to a better future for millions of grassroots milk producers.

The NDDB helps Indian milk producers reach markets and provides inputs and services, technical expertise and financial assistance. Innovative transport is another achievement of the NDDB. By using special rail and road tankers, milk can be moved over 2,000 kilometers to reach markets.

Since its inception, the NDDB has catalyzed India's dairy industry 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 biologicals on a nationwide basis.

Today, India's 100,000 dairy cooperatives procure an average of 16.5 million liters of milk from 12 million farmer

members every day. The milk is processed and marketed by 170 milk producers' cooperative unions which, in turn, own 15 state cooperative milk marketing federations. Dairy cooperatives account for the major share of processed liquid milk marketed in the country. In 1968, India's milk production was 21.2 million MT, and the per capita availability of milk was 112 grams per day. In 2003-04, those same figures were 88.1 million MT and 231 grams per day, illustrating the impressive impact of Indian dairy cooperatives. Presently, annual payments to producers amount to US\$1.6 billion.

Zambia is an example of how agricultural cooperatives can catalyze economic growth and investment in a former socialist economy. Small-scale Zambian farmers had been served by government-sponsored, highly subsidized cooperatives that were disbanded in the shift to a market economy. In order to enhance productivity and increase farm incomes, a project was initiated in 1996 to establish self-managed farmer-owned cooperatives to source inputs, diversify and market crops. The program used local staff who undertook intensive, community-based training to build the production, business, financial and organizational skills among cooperative members. Participating groups increased their income by \$1.8 million over five years, and 371 primary cooperatives (called rural group businesses) and 97 secondary cooperatives (called depots-associations) provided input distribution and crop marketing. Conservation farming practices were adopted by 14,000 farmers for intensified production to move producers away from subsistence farming and to increase yields for maize, sunflower and soya. Maize yields doubled. During the 2002 and 2003 drought, the secondary cooperatives serviced 30,000 farmers with over \$1 million of inputs for the production of maize and legumes, such as beans, groundnuts and soya.³¹ The cooperatives helped farmers access credit for inputs, and repayment rates were excellent. Success was based on using local trainers and a strong field presence so that loan distributors knew their individual farmers.³²

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. There was a huge pent-up demand for telephone service in rural America where telephone service did not exist or was inadequate. "Baby Bells" and other investor-owned companies did not believe that they could make a profit serving rural, dispersed populations.

The same impact can be seen in developing countries where telecommunications cooperatives provide an unprecedented salience to their members, communities and businesses. Members who never expected telephone service in their lifetime now receive high-quality, low-cost voice and data services that are equal or superior to services provided to their urban neighbors.

Just as telecommunications cooperatives have been instrumental in the development of rural America, they can help developing countries overcome obstacles as they transition to a market economy. In **Poland, Tyczyn and WIST telecommunications co-ops** illustrate typical impacts. Tyczyn serves 40 villages, 445 private businesses, and 67 public sector providers. WIST serves 33 villages and 171 businesses, including 30 local cooperative businesses and farm banks, a sausage plant, a large regional dairy co-op and an international regional airport. Business customers of the telephone co-ops operate more efficiently and communicate more readily with employees, suppliers and customers. For example, the **Alfred Drinking Water Bottling Plant**, a Tyczyn cooperative member, provides weekly home delivery to 70,000 customers who can order by phone or Internet.

Telecommunications co-ops have spurred business development and local investment, and led the way for filling other community needs such as establishing wastewater treatment plants, village natural gas systems and recreation facilities. The cooperatives also provide access to emergency police and ambulance services, and enhance the functioning of public institutions such as mayor's offices, churches, schools and social clubs.

In **Albania, Krutje TeleCoop** is changing the lives of the community it serves. This pilot telecenter cooperative was established in 2004 in Krutje, a poor, agricultural community of approximately 11,000. It was founded by 70 residents of Krutje and serves the needs of local entrepreneurs, educators, students, farmers, NGOs and even unemployed individuals. The cooperative extends information and communications technology access, training and business support services using computers, telephones, a photocopier, printer, fax machine and satellite dish for Internet connectivity. Designed for sustainability, and with extensive U.S. cooperative development technical assistance, Krutje TeleCoop began recovering its operating costs very shortly after starting operations. It is an excellent example of a profit-making ICT community-based enterprise and planning is underway to extend access through similar ICT centers in other rural communities in Albania.

In **Argentina**, telecommunications cooperatives (TCCs) were established when the State was unable to provide telephone service in remote areas. The State telephone enterprise was privatized in 1989. From 1992 onward, TCCs actually replaced the large private telephone enter-

prises in remote or low-populated areas, as these incumbents were not interested in providing services which would not be profitable.

TCCs provide telephone and Internet service, through dial-up and/or broadband (ADSL) connections, as well as Internet Protocol (IP) telephony, to their target populations at significantly lower costs than the large traditional firms (Telefonica and Telecom). Most TCCs also offer free community services, such as courses on information and communication technologies (ICTs), and free Internet access to public schools, libraries, and public facilities (police stations, hospitals, etc.).

Argentina has two main Cooperative Federations: **FECOTEL** (which unites 250 cooperatives), and **FECOSUR**. The two include 350 telecommunications cooperatives. The largest Cooperative Federation, FECOTEL, is 40 years old. It has more than 5,000 local cooperatives as associates, and manages (among the member cooperatives) more than \$10,000 million pesos (around US\$3,000 million). The cooperative sector serves more than 2.5 million Argentines, approximately 8% of the country's population, with 600,000 telephone lines. It invoices \$300 million pesos (around US\$100 million) per year, and employs 3,500 individuals.³³

In **Bolivia** there are currently fifteen telecommunications cooperatives that provide the majority of the country's local service in both urban and rural areas. They were created in 1985 and, until the country's 2001 liberalization of the telecom market, they held monopoly licenses for their particular geographic areas. Empresa nacional de Telecomunicaciones (ENTEL), the monopoly long-distance provider until liberalization, continues to provide the lion's share of long distance and international service. The four largest cooperatives are COTEL, COTAS, COTES and COMTECO, cumulatively accounting for 80% of main lines.³⁴ Subscribers purchase lines from the cooperative and have equity and voting rights in the company.

One of the most impressive cooperatives is the **Cooperativa de Telecomunicaciones de Santa Cruz (COTAS)**. This cooperative was designed to serve the urban area of Santa Cruz, which comprises about a third of the nation's land mass and a population of over two million. Before COTAS was established in 1960, the city of Santa Cruz only had about 200 manually switched telephone lines. The local Chamber of Commerce guaranteed a \$6,000 loan that COTAS sought to procure the necessary switching equipment, and by 1963, the cooperative was able to roll out over 2,000 lines.³⁵

COTAS is now the second largest cooperative and leads all other cooperatives in call volumes and revenues. It provides local telephone service throughout the Santa Cruz department, and domestic and international long-distance services through its Teledata subsidiary. By 2002, Teledata had captured 10-15 per cent of the long distance market.

COTAS also provides Internet, ADSL, data transmission, public phones and cable TV services.³⁶

In 2002 COTAS became Latin America's first mobile virtual network operator by reselling Nueva Tel services, leasing spectrum from Nueva Tel's GSM network. In 2003 it secured its own digital microwave backbone network interconnecting eight department capitals, and in 2004 began to install an eMGW broadband wireless access in the greater Santa Cruz area to replace an outdated wireless local loop system. In 2005 Cotastel Satelital was launched and offers satellite service in Santa Cruz, Tarija, Cobija, Trinidad, Sucre, Oruro, Potosi and El Alto.³⁷

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."

Paul Wolfowitz, former World Bank President
Launching the World Bank's Energy Week,
March, 2006 ³⁸

Electric services transform rural economies economically and socially. In the United States, the electrification program initiated under the "second" New Deal in 1935 became rural America's great economic transformer from the 1940s through the mid-1960s. Electricity changed every aspect of rural life. Nearly all of the electrification investment was carried out by the rural communities themselves, which organized cooperatives that borrowed from the federal government, received technical assistance and got the job done on the basis of "area coverage" – anyone who wanted electricity could join. By the end of the construction boom, 99 percent of rural America was electrified. Today, there are 935 electric cooperatives which together serve 75 percent of the land area of the U.S.; own and operate 2.3 million miles of electric distribution line and 40,000 MW of power generation and transmission facilities; and represent the fastest-growing segment of the U.S. electric power industry. Today, and for the past 40 years, rural electric cooperatives have been sharing their experience with poor rural communities worldwide. In all, some 100 million people receive electricity from electric cooperatives in a dozen countries.

The electric cooperative model has been spearheading rural development overseas, just as it did in the United States, and the economic impact is on a very large scale. In the **Philippines** today, there are over 100 electric cooperatives bringing electricity to over 6 million households nationwide. Electric co-ops serve 85 percent of rural populations and had gross revenues of \$695 million in 2002. In **Bangladesh**, there are approximately 70 cooperatives that 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.

Many developing countries, however, have elected to carry out rural electrification development through national state-owned electric power utilities, but most are commercially non-viable. Bill collection is poor, theft and corruption are often rampant, and penetration rates are low. In **India**, for example, non-technical losses (power delivered to the area but not paid for) can be as high as 90 percent and, as a result, the utilities have been slow to connect rural households. On average only 10 percent of households are connected. The government estimates that electricity losses cost \$5 billion annually and the environmental impacts of inefficiencies in India's electric utility system (which is heavily dependent on coal and other fossil fuels for its power supply) are staggering. An estimated 100 million metric tons of carbon dioxide emissions are directly associated with the country's porous distribution system.

In contrast, co-ops can achieve efficiencies in operations with high collection rates (95 percent and higher) and fewer losses (e.g., theft) on average of about 15 percent.³⁹ In Bangladesh, rural cooperatives collect 97 percent of energy billed, on village connection rates of about 50 percent. Tariffs are set at the cost of service and, as a result, the networks are relatively well maintained and technically efficient.

Because electricity can provide much higher energy value per comparable unit cost than any of the traditional energy sources, consumers benefit not only from the quality of lighting and power source for appliances, but also economically since the per unit cost of electricity is so much lower than alternatives. A typical project in Bolivia demonstrated a 20-year economic benefit of over US\$2,500 per consumer.

Rural electrification programs can be challenging because rural people have lower incomes, use less energy and have lower population density than urban populations. Yet, overwhelming empirical evidence shows that rural residents are willing to pay for electric service if the quality is good. The typical household in any developing country spends between US\$5-\$15 on traditional energy sources such as kerosene, candles and dry cell batteries for its monthly energy requirements. Typical household charges for electricity from the grid in rural towns are between US\$5-\$10, depending on consumption, so the ability and willingness to pay for electricity is well established.

A retrospective case study of an electric cooperative, **Cooperativa Rural de Electrificación (CRE)**, in Santa Cruz, **Bolivia**, analyzed the declining per customer costs

in the shift to electricity. In the initial years and with improved service, electric rates dropped anywhere from 43 to 68 percent due to lower generation costs, longer amortization terms and higher electric sales, provision of quality service and an expanding customer base. CRE demonstrates the ability of an electric cooperative to achieve scale.

Figure 1
Growth of Cooperativa Rural de Electrificación

	1970	2002
Members	10,875	276,000
Employees	53	588
Km Distribution Line	620	11,000+
Value Electric Plant (net) US	\$3,500,000	US \$61,821,000
MWh Sales	14,400	1,079,209
MW Peak Demand	8	228

Electricity has spurred economic growth. CRE contributed 15 percent to the Bolivian gross national product in its first decade of operations, and resulted in a 35 percent increase in local employment. The region today contributes over 30 percent to the Bolivian gross national product, more than any other region in the country. CRE covers 90 percent of the urban area, 75 percent of the semi-urban area and 33 percent of rural areas.⁴⁰

An independent survey published in June of 2003 shows CRE leading Bolivia with an overall index of customer satisfaction at 82 percent. The average of all utilities was 64 percent. In another study of customer satisfaction of electric utilities across nine South American countries CRE placed in second place overall. A study of image among the membership gave CRE a score of 3.79 on a scale of 1 to 5. Monitoring and analysis of customer service representatives consistently result in scores in the high 90 percent range. Underlying the customer service programs and high levels of satisfaction that result is a pervasive attitude of openness and a focus on the member-client. CRE has been able to maintain a culture of keeping the doors and books open, and bringing the cooperative to the community.⁴¹

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 mem-

bers 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).⁴²

In **Mexico**, credit unions provide financial services to poor and low-income households on a mass scale focusing on increasing outreach and improving financial performance.

Caja Popular Mexicana, the largest credit union in Mexico, increased its outreach from 479,732 in December 2001 to 1.1 million in August 2005. In the **Philippines**, a select group of credit unions on the islands of Mindanao and the Visayas increased mobilized savings from \$3.4 million in December 1998 to \$50.2 million in September 2005. In **Rwanda**, the outreach of the credit union system increased from 228,846 in December 2000 to 421,965 in June 2005.⁴³ Credit unions mobilize large numbers of small-scale deposits and provide credit for the diverse needs of their membership. An analysis of credit union savings in three countries (**Bolivia, Nicaragua and Romania**) indicated that 57 credit unions mobilized \$48.9 million in 178,388 accounts, of which 87.2 percent of the account balances were for amounts less than \$100. An analysis of \$89.8 million loans in 222 credit unions in Bolivia, Nicaragua, Philippines, Romania and Rwanda indicated that 39.5 percent were for the purpose of income generation (e.g. microenterprise, agriculture and livestock); 27.1 percent for housing (e.g., construction, improvements and purchases); 27.4 percent for personal needs (e.g., education fees, weddings, funerals); and six percent for other emergency loans.⁴⁴

Credit unions are reaching very large numbers of poor people by employing strategies of *mainstreaming* (incorporating financial services for the poor into the formal financial sector) and *scaling up* (extending access to financial services to poor people).⁴⁵ By offering an array of client-responsive services, extending geographical coverage, introducing distinct products for downreach and harnessing technology, credit unions can improve demand-driven financial services and bolster growth and efficiency to reach greater scale.

In **Poland**, credit unions grew from start-up status in 1992 to serve more than one million member-clients through 1,400 points of service, accumulating assets of nearly US\$1 billion in 2004. Credit unions serve as the largest

financial services network in Poland with a diverse membership including shipyard workers, small scale entrepreneurs, housewives and miners. Polish credit unions offer savings, credit, ATM access, debit cards, insurance, retirement accounts and checking among their menu of financial services.⁴⁶

Credit unions in the **Philippines and Ecuador** offer a product known as “Savings and Credit With Education” (SCWE) to women and men without access to safe and affordable financial services by introducing them to credit union products in village bank settings. As of June 2004, 16 credit unions in the Philippines served 37,249 members through 1,388 savings and credit associations. More than 160,000 learning sessions on the topics of health, nutrition, self-esteem, small scale enterprise development and management of savings and credit associations have been conducted for the clients in the Philippines through weekly meetings. In Ecuador, four mainstream credit unions serve 12,633 women through 575 savings and credit associations, as of August 2005. After five successful lending cycles, Ecuadorian group members can opt to graduate from group savings and lending to become individual credit union members.⁴⁷

Remittances are an important transaction service which credit unions offer to members. A remittance is a small funds payment sent across borders from one person to another. In today's common usage it is the portion of an immigrant worker's earnings sent back to family members in his or her town of origin. The Hudson Institute has estimated that \$47 billion leaves the United States in the form of remittances each year.⁴⁸ Credit unions are being created to provide remittance and other financial services in developing countries.

By expanding product offerings to include remittance distribution, credit unions in developing countries reach out to unbanked remittance recipients to become members, deposit savings and participate in the formal financial sector. Credit unions in **Bolivia, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico and Nicaragua** have distributed a cumulative total of 2.1 million transfers in the amount of \$913 million between August 2001 and November 2005 through their 832 points of service. A detailed survey of member and non-member remittance recipients at Guatemalan credit unions revealed that less than half (44 percent) of non-member remittance recipients hold an account at a financial institution. Through the provision of remittance services, credit unions bank unbanked recipients by offering them financial services beyond remittances as they come in to collect their monies. Forty percent of member recipients surveyed in 2004 named remittance services as the primary reason for joining the credit union.⁴⁹

b. Rural Credit Cooperatives

Another model that brings loans and other financial services to underserved rural areas is the rural credit cooperative. Where credit unions are based on a model that builds assets and equity through the savings of its members, credit cooperatives are cooperative financial institutions that build assets and equity through member contributions that may or may not include savings.

U.S. development assistance has been instrumental in building the scale and salience of the rural credit cooperative system (RCCs) in Russia. As a result of this assistance, since 1998, the number of RCCs has increased dramatically – only 42 RCCs were registered in 1998, compared with 872 in 2006. There were 839 members in 1998, but membership grew to over 91,874 in 2006.

In 1999, RCC membership of rural households was only three percent. Today, households make up 46 percent of the membership. Agricultural enterprises (36 percent) and private farms (53 percent) took most of the loans in 1999. Agricultural enterprises represented only 8 percent of portfolio in 2005, while private farms (39 percent) and households (46 percent) took the lead in 2005. Loans to agricultural entrepreneurs fell from 8 percent to 5 percent during the period.

The number of borrowers exceeds 91,874 rural members in 872 RCCs, with an average annual membership growth of 17,000 over the last five years, in 62 regions of Russia. This level of salience and scale has room for growth – it is estimated that there is unmet credit demand of 50-57 percent, even among rural cooperative members.

Fifteen million rubles (current exchange rate US\$1=26.67 rubles) were disbursed in loans by RCCs in 1998, compared to almost 2.2 billion rubles in late-2005. RCC capital stood at 6 million rubles in 1998 and almost 376 million rubles in late-2004. Rescheduled loans stood at 13.9 million rubles at the end of 2004, 4.6 million rubles at the end of 2005, and 1.4 million rubles as of May 2006, or .57 percent of portfolio, and 1.3 percent less than the number in mid-2005.⁵⁰

5. Housing and Community Cooperatives

“Before, no one asked us, or cared about what we thought. Now we need to think for ourselves and it is important that we communicate with other owners and receive their backing.”

Member of a housing cooperative in Poland
following the privatization of the housing sector in the 1990s.

The housing sector accounts for a sizeable portion of the global economy. According to the World Bank, housing can represent as much as 40 percent of the monthly expenditure of households, and housing construction and housing related sectors account for roughly nine percent of the labor force worldwide.⁵¹

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. They are a flexible form of housing that provides access to both rental accommodation and home ownership.⁵² Cooperative housing enables individuals who might not qualify individually to become home owners, since the lender provides a single loan to the group. In less developed countries, the structure of joint ownership varies considerably. It often takes the form of a limited cooperative enterprise that allows for the aggregation of funds, and enables the group purchase of land and acquisition of construction finance. Long-term financing is secured through individual mortgages facilitated by the cooperative, which continues to take responsibility for the management and maintenance of the common property.

Regarding the construction of new homes, housing cooperatives provide economic benefit by stimulating added construction and creating jobs through the regeneration of the housing market. In **Poland**, for example, as part of the emergence of a market-based economy and a liberalized housing delivery system in the 1990s, small, democratically based housing cooperatives emerged as a significant mechanism for new housing development.

Sponsored by a local nonprofit enterprise, a housing cooperative was formed and then acquired a parcel of land, decided on an architectural and development plan consistent with the economic circumstances of the group and tendered that work in the marketplace. Once construction was complete, the construction finance was rolled into individual mortgages. The resulting housing was approximately 20 percent less expensive than comparable housing available through other sources.⁵³ Overall, this experience showed the profound impact of housing cooperatives on local employment; on average, each newly constructed unit generated 25.55 person months of local employment. Such benefits were felt in not only the direct housing and construction markets but also through backward linkages: namely, the hardware and lumber, transport, banking, public infrastructure, and domestic furnishing industries.⁵⁴

Housing cooperatives also help residents increase the value of their homes, thereby boosting the domestic housing market overall. In places where access to capital is scarce, cooperatives enable residents to finance home improvements and/or maintain or improve public spaces in multi-storied units. In **Bosnia and Herzegovina**, for instance, members of an association of housing cooperatives in Maglai, known as the **Maglai Association**, have supported cooperatives that are improving heating services

and other public spaces (roofs, hallways, gardens) within multi-storied apartment buildings, thereby increasing the value of property while improving the health conditions for thousands of residents.

Cooperatives also allow for public-private financing in the housing sector. In one example, the **Tuy Market Vendors and Community Multi-Purpose Cooperative** (a multi-purpose cooperative in the **Philippines** that markets goods and provides credit for its 812 members) formed a housing cooperative in 2000 to provide decent residences to homeless members, in coordination with the National Housing Authority, Land Bank and the local government. At a total cost of \$428,140, the housing project benefits 161 members, providing 57 single detached housing units that are 24 square meters each, 104 residential lots and one commercial lot.

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. Yet, when measured in terms of premium income, Columna represents only 1.3 percent of the total Guatemalan premium market. Columna and other cooperative insurers are unique in that they provide insurance protections to large num-

bers of individuals, families and small businesses by collecting small premiums. This type of insurance is often referred to as "microinsurance," the provision of insurance to low-income persons.

La Equidad in **Colombia** and **Coop-Seguros** in the **Dominican Republic** are examples of successful cooperative insurance companies serving lower-income populations. Founded in 1970 with U.S. technical assistance, La Equidad has become one of the largest and most successful insurance companies in Latin America, providing life insurance products to over two million Colombians. With a firm commitment to providing insurance to low income populations, La Equidad has developed a number of specially designed microinsurance products, including group life insurance policies called Equivida and Amparar, sold through La Equidad's 1,300-cooperative network and through alliances with microfinance institutions working with women. Amparar is based on an extensive market study conducted among low-income populations which identified their needs for protection to include death/illness, education for children, groceries, utilities and funeral costs. Premiums range from \$10/year to \$58/year, depending on levels of coverage and total number of persons insured under the policy.

Founded in 1980, **Cooperativa Nacional de Seguros** is a successful example of an insurance co-op addressing HIV/AIDS. Coop-Seguros is owned by 40 cooperatives in the Dominican Republic. Facing a potential HIV/AIDS pandemic, Coop-Seguros is implementing several activities to address the socio-economic impact of the disease:

- 1) An HIV/AIDS prevention education program operated through the cooperatives for their members, families and communities, reaching 15 percent of the country's population. Tapping into education departments within cooperatives, HIV/AIDS education committees and "multipliers" are trained to lead educational activities;
- 2) A cooperative financial preparedness program focusing on developing financial management and financial risk-evaluation skills within participating cooperatives to help them develop risk-mitigation strategies for financial consequences of HIV/AIDS and other risks; and
- 3) Eliminating HIV/AIDS insurance exclusions in current life policies and developing new policies that will offer a partial pay-out in the case of catastrophic illness, including HIV/AIDS.

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.⁵⁶

One of every four young people under the age of 25 lives in poverty.⁵⁷ 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, **the Mogoto Youth Cooperative** is an example of how youth cooperatives can create jobs and livelihoods. This worker/producer co-op was incorporated in September 2004, has 15 members ranging in age from 21 to 34 years old, and is involved in broiler production and marketing of poultry products. Their vision is “to create decent employment and sustainable livelihoods for youth in the community through collectively owned enterprises.” Full production began in 2005 with 3000 broilers and plans call for increasing this by 5000 broilers per cycle. Over the next five years, they plan to expand into vegetable production.⁵⁸

Three young men with experience in the poultry industry initiated the project and later decided to invest their own money to create and organize a cooperative. They also received outside funding during the initial phases from the Umsobomvu Youth Fund, land from the local tribal authority, and assistance from extension officers who helped them develop a business plan. Members are dedicated to the cooperative model because they not only participate in a business activity but also have access to continuous skill development, the opportunity to learn from one another and the ability to motivate other young people in the community. The co-op consults with the community on all of its operations.

This project illustrates the positive outcome when young people decide to take responsibility for their own economic future. The co-op has not experienced lack of commitment or dropouts, as members were screened before they were accepted to assure that they were willing to accept responsibilities of membership.

Providing legitimate and profitable employment for youth will represent a major challenge for developing countries. Investing in youth cooperatives on a large scale could be a potential engine of economic growth.

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

“In an increasingly globalized 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.”

Hilde Frafjord Johnson, Minister of International Development, Norway
General Assembly, International Cooperative Alliance
September 2003⁵⁹

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.

A. Democratic Governance, Participation, and Local Control

Democratic values are put into practice through seven commonly accepted cooperative principles, the second of which is democratic member control. Members own their business so they have a stake in jointly made policies and decisions. Men and women serving as elected representa-

tives are accountable to the membership. In most cases, members have equal voting rights (one member, one vote). They provide share capital, elect a board of directors and receive the benefits of ownership through patronage refunds based on extent of their transactions with the co-op.

Through cooperatives strong local, state, and national leadership can emerge. Members learn how to resolve problems democratically and, among those who learn democracy in local cooperative “laboratories,” are some who go on to become political leaders in their nations. In emerging democracies, co-op members learn entrepreneurship and market principles. Co-ops enable people with limited resources to pool them so as to competitively participate in the mainstream of a nation's economic and political life. As democracies emerge, decisions become subject to the “push and pull” of different groups. Cooperatives create an economic pressure group that often transcends caste, class and religion, drawing together a constituency that has a vested interest in progress and policies that enable economic growth.

Sustainable development is achieved because co-ops integrate economic *and* social objectives by fostering collective local action which, in turn, builds and reinforces communities. For example, they reduce inequalities and empower marginalized groups by developing local organizational knowledge and management skills such as literacy, numeracy, advocacy and communications.⁶⁰

Such factors can impart a notable influence in the political sphere. In the Philippines, for instance, the cooperative sector comprises over ten per cent of the entire domestic economy and includes over 4 million members. Co-ops play a substantial role in national politics and a seat in the House of Representatives is dedicated to the cooperative sector. As well, there are many senators and representatives who are cooperative members.

Cultural, organizational and technological change is fostered by co-ops in communities and, because of their organizational form, they have outperformed private and state enterprises in commercial activities in more sustainable ways.⁶¹ Many of these locally controlled institutions carry strong links to social movements focused on poverty alleviation, social justice and environmental issues. In this manner, cooperatives may be able to better address negative impacts of globalization than large international corporations.⁶²

B. Devolution of Power to Those Affected by Its Influence

Cooperatives bring special values to stabilization and democratization. They devolve power and center it among those directly affected by its influence. Cooperatives empower individuals and communities, have

the potential to be a potent natural antidote to forces that lead societies into violent conflict, and are a stabilizing force.⁶³ They are, by their nature, organizations that combine:

- Peaceful channeling and acquisition of important economic and other basic needs and membership that is strongly motivated around these needs;
- Sustainable, indigenous roots;
- A need for and appreciation of democratic management;
- Economic systems based on a heightened level of trust;
- An appreciation of, and active support for, economic and political pluralism;
- Expectation of responsiveness from leadership; and
- Confidence in the right of participation in governance.

Well-organized cooperatives are responsive to their members, which means that:

- Members can demand responsiveness from leadership;
- Members can feel confident in the oversight of management;
- Management structures allow for oversight and transparency; and
- Boards of directors and managers must equitably meet the needs of all members.

Cooperatives are a microcosm of a democratic political system that is often closer to, and more relevant to, the community. Democratically elected boards and operational transparency encourage trust.⁶⁴

Devolving power to member-owned and community-based cooperatives pays off when conflict strikes. For example, from 1996, until the recently established and still fragile accommodation, Nepal has experienced an escalating internal conflict between Maoist rebels and the government. Of Nepal's 75 districts, 46 are classified as highly affected and 20 as affected by the insurgency. As of 2003, violent clashes between Maoists and police/military have claimed more than 7,000 lives. The banking sector and its rural branch banks are prime targets of rebels. An estimated 20 to 30 percent of the three largest rural banks, including the Agricultural Development Bank, have been robbed and vandalized.

Credit Unions are the largest provider of microfinance in Nepal,⁶⁵ especially in remote and mountainous areas. They have approximately 37,390 members, \$4.3 million in savings and \$2.6 million in loans with a 95 percent repayment rate. In contrast to banks, most rural credit unions in conflict zones have not been affected because they are member-owned and community-based. However, there are cases where credit unions have been forced to reduce interest rates. As well, equipment and infrastructure have been stolen. Because of the trust between local credit

union managers and members, they have adopted several coping strategies to deal with the insurgents:

- Information campaigns at local, district and national levels;
- Indirect dialogue with Maoists at the local level to assure them that they are member-owned, not government institutions;
- Special security arrangements for cash and files including preparing two copies of each document, depositing cash daily in banks, a zero-cash-on-hand policy to avoid looting, strong cash vaults and board members hiding cash at their homes when necessary; and
- Temporary transfer of operations to district headquarters; and immediate reconstruction, rehabilitation and re-launching of activities if credit unions are attacked.⁶⁶

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, child-care 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 **India**, the Women's Dairy Cooperative Leadership Program worked with milk

unions from 1999 to 2002. An extensive analysis of its impacts in 50 villages indicated that the cooperative training improved the capacities of rural women in income generation and in promoting savings and credit. In addition to economic development impacts, participation in the co-op led to better health, hygiene, functional literacy and legal rights. The program significantly increased the involvement of women in dairy cooperative management. Women's participation rates more than doubled on management committees of targeted cooperatives compared to no increases in other cooperatives.⁶⁸

Countries which seek to improve their productivity overall, and particularly to feed an expanding population, should seek to expand women's participation in cooperatives. As a forum for mastering democracy and learning the advantages of participation, while also improving incomes, cooperatives can be more effectively embraced as a means to empower women and upgrade their skills.

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"

Professor Albert O. Hirschman⁶⁹

In a classic study of Latin American cooperatives.

SOCIALLY, cooperatives are local institutions rooted in grassroots society which give their members an ownership stake in the economy and connect people with decisions that affect their daily lives. They make an important contribution to building social capital and increasing trust, and also to restoring it when societies have been torn apart by conflict or by ethnic, political or religious divides. Cooperatives can provide social services to remotely located, low income segments of society that may not be otherwise served, including providing critical health services and educating millions at risk of developing HIV/AIDS.

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.⁷⁰

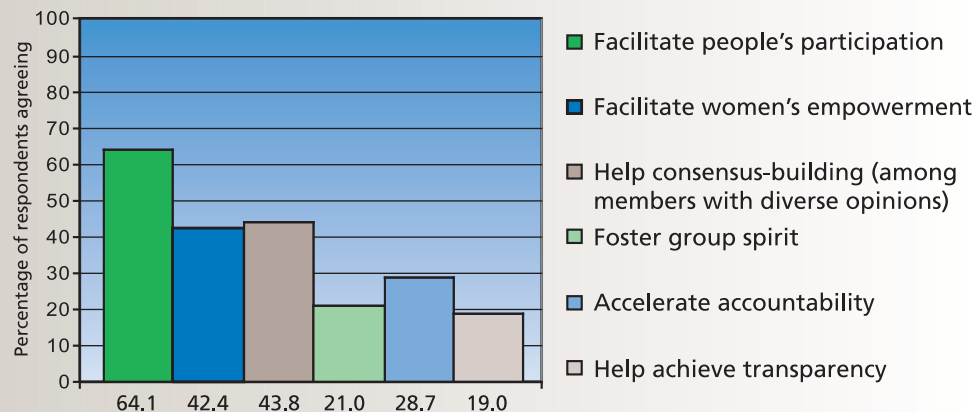
While the value of building social capital may be difficult to quantify, increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable.⁷¹ Studies have shown that societies with strong social capital tend to do well economically and can reduce their poverty levels.⁷²

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. Abdul Barkat and his colleagues in a study that noted: ⁷³

“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. As shown in Figure 2, a survey of members

Figure 2
Perception about the nature of useful roles PBS plays



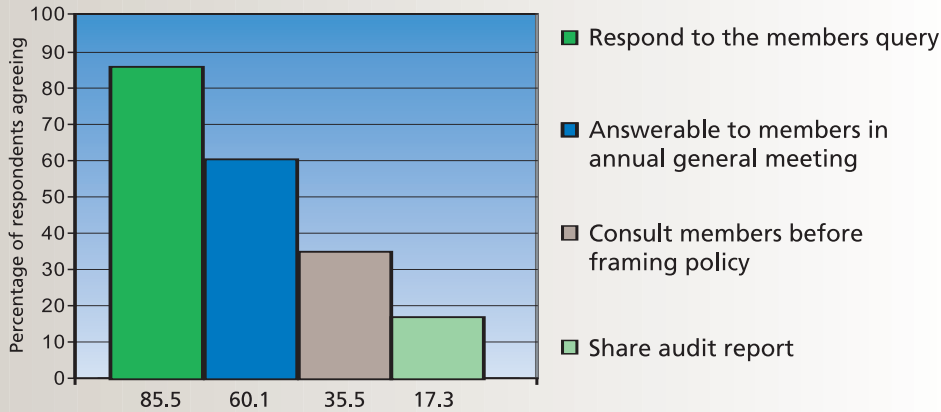
From *Economic and Social Impact Evaluation Study of the Rural Electrification Program in Bangladesh*, October 2002, p. 598, Table 8.9 f

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.⁷⁵

Enhancing development choices available at the local level and including all societal groups in these choices accelerates poverty reduction. The **Palli Bidyut Samities (PBS)** cooperative system is one of the best existing models of local control and decentralization in Bangladesh and is recognized as one of the most successful rural electrification projects in the developing world. The rural electrification board serves as a semi-autonomous agency under the government of Bangladesh and rural electric cooperatives deliver the services.⁷⁶ Figure 3 shows that, while there is still room for improvement, the Board has proven to be responsive to queries from, and answerable to, its members.

When the PBS system was originally planned, it was envisioned that 70 co-ops would be created to cover the country. Sixty-seven PBSs have now been established and 57 are operational, serving 38,000 villages. Over 28 million people now have access to electricity. In 2004, new rural connections averaged 2,000 per day, bringing the total number of rural connections to 5.6 million. 120,000 electric irrigation pumps provide low-cost irrigation to farmers during the dry season. Crop yields are up in electrified villages, as are the number of agricultural jobs and the incomes of received by agricultural workers. As a result of sound management and local control, the PBS system is profitable, with a 96 percent collection rate (versus 60 percent nationwide), and the total system losses are less than half that of the national utility.⁷⁷ The PBS model can be replicated in other sectors for the improved future of Bangladesh.

Figure 3
Perception of accountability of PBS board members



From *Economic and Social Impact Evaluation Study of the Rural Electrification Program in Bangladesh*, October 2002, p. 596, Table 8.7 f

There are now 149 *banques populaires* (credit unions) with 398,799 members, savings of US \$44 million, loans of \$34.6 million, assets of \$47 million and reserves to \$7.6 million. Study of the composition of the credit union staff shows little evidence of ethnic differences. Staff are hired based on their educational degrees and experience.⁸⁰ A 2002 survey showed that members of Rwandan credit unions trusted their credit unions more than banks – 3.5 compared to 2.8, on scale of 5 (see Figure 4).

B. Increasing Trust

Of the values important to the social contract, trust is perhaps the most fundamental. Whether as cooperative members or as part of society, with trust, individuals act contrary to their own individual interests in order to ensure a degree of stability and longer-term benefit. If trust is not a common value in a society, forming a cooperative becomes more challenging, but efforts made through cooperative development projects can increase trust and reinforce it in a broader societal context. Cooperatives are a microcosm of society and can contribute to the building of broader social trust. For the cooperative to succeed, members must trust one another, their elected leaders, and the professionals who carry out the cooperative's work. When this results in improved income, greater access to credit, better housing, etc., it reinforces that trust is central to a healthy society.

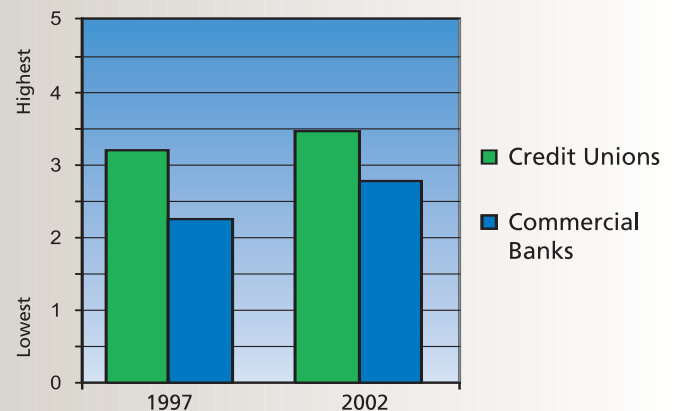
Trust entails a willingness to take risks in a social context. Individuals act, based on confidence that others will respond as expected and will act in mutually supportive ways, or at least that others do not intend harm. Fukuyama defines trust as: "...the expectation that arises within a community of regular, honest and cooperative behavior, based on commonly shared norms, on the part of other members of that community. Those norms can be about deep 'value' questions but they also encompass secular norms like professional standards and codes of behavior."⁷⁸

In **Rwanda**, following the genocide of 1994, a cooperative development project rebuilt the credit union system by expanding services and access to small savers and producers in rural areas without regard to ethnicity.⁷⁹ The program worked intensively with 17 pilot credit unions to strengthen their performance, increase their outreach and strengthen the national association, Union des Banques Populaires de Rwanda.

C. 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.⁸² 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.⁸³

Figure 4
Average trust in Credit Unions and Commercial Banks in Rwanda



Source: "Rwanda Credit Unions Member & Non-Member Survey 2002," Research Monograph Series No 20, World Council of Credit Unions (WOCCU), June 2002. Based on a random sample of 350 credit union members from 7 Rwandan credit unions.

Co-ops can successfully facilitate the return of people to countries after civil wars. In **Bosnia and Herzegovina**, a development project assisted the formation of sheep cheese cooperatives to encourage displaced refugees to return to their pre-war homes and to encourage those who had returned to advance their economic opportunities. The goal was to create jobs and increase family income, particularly for minority rural groups that had been subjected to ethnic cleansing.

Market research suggested that there was a potential market for the traditional cheeses produced in Srebrenica, Kotar Varos, Knezevo and Kupres, which had experienced some of the worst ethnic cleansing during the war. Cooperative promoters presented the data at an open meeting and asked who was interesting in taking advantage of this opportunity. The meeting was the first time local Muslims and Serbs had been in contact since the war. Several key individuals came forward and agreed to participate in an ethnically mixed working group that met every two weeks. A feasibility study for centrally located and community-based cheese plants was eventually conducted and, in six months, cooperative promoters assisted a committee in writing co-op bylaws.⁸⁴

A meeting was held to adopt the bylaws and elect a board of directors consisting of seven members, of which two are minority Serbs. The supervisory board has three members, of which one is Serbian. The office is located in an ethnically mixed village, and the packing facility is located in a minority Muslim village. The packing facility has two staff: one Muslim and one Serb. The cooperative pays producers a price for their cheese that is 40 percent higher than prices received prior to the formation of the co-op.

The cooperative's success has encouraged minority refugees to return. In Srebrenica, there were 1,720 minority returnees in 2003, about 10 percent of the pre-war population. In rural ethnically mixed areas, where about 6,500 homes were totally destroyed, 500 families are now engaged in raising livestock. In the Vlasic Plateau (a sheep region), there has been a 16 percent increase in minority returnees especially Bosnian Serbs. The minority returnees are making investments in physical assets, as they are confident of a more secure future. This example shows that, following conflict, cooperative development can help provide the economic opportunities that provide a sense of shared destiny and rebuild social capital and trust.

In **El Salvador**, electricity was unavailable for 16,000 of 20,000 ex-combatants in resettlement communities. A project was developed⁸⁵ to assist in the demobilization of ex-combatants by providing electricity to towns formerly held by rebels. New homes, businesses, water systems, and other community facilities were electrified.

In May of 1992, the electric cooperative⁸⁶ at Perquin (a mountainous town that was the headquarters of the guerrilla movement) was formed and the electricity was turned on in August of 1994. The cooperative had a seven person board of directors, initially composed of ex-combatants. As part of reconciliation efforts, at the next board election the mix shifted to include both current residents and ex-combatants. Electricity helped drive an economic boom and the population of Perquin grew by 40 percent from 1994-1996.

Providing rural electrification through cooperatives boosts civil society in remote areas by strengthening local governments (e.g., lighting for town halls for evening meetings, police stations, community centers, street lights) and providing modern benefits including lighting for education, productive uses⁸⁷ and information through radios and television. While public utilities might be reluctant to extend power lines to less profitable rural communities, through cooperatives rural people can gain a "connectedness" to the rest of the nation and enjoy the same electric benefits as their urban neighbors.

D. 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.

In **Montenegro**, a small mountainous country, residents represent diverse nationalities (Montenegrin, Albanian) and diverse religions (Orthodox, Muslim and Catholic). A cooperative development project in Montenegro⁸⁸ coincided with the ending of Allied strikes and initially faced strong anti-Western feelings. State collectives (zadrugas) had collapsed and dairy cows were distributed to members. There were 55,000 dairy farmers who each had only two or three poorly producing cows.⁸⁹ Three large dairy plants and several emerging private plants lacked quality raw milk. Not a single private farmer association existed.

Dairy farmers requested help in forming co-ops and training programs were designed to teach cooperative values, mission and business practices. Training focused on democratic governance and transparent structures and included drafting bylaws and developing member services. As co-ops were formed, a rating system was established to create competition among cooperatives and encourage them to adhere to democratic principles and practices (e.g., open board and annual meetings with agendas and minutes; accurate and transparent financial books). Elected boards of directors reflected the diversity of members with different political views, religions and ethnic backgrounds.⁹⁰ Within a year, 35 farmer cooperatives were

formed with 12,000 members, and a trading company was formed to unite the cooperatives in purchasing inputs and marketing.

As a result of training in rights and responsibilities, cooperative members elected young, competent leaders, replacing old-style leaders who dictated policies. As of May, 2004, 48 cooperatives were functioning well. While some members still owned only one or two cows, the cooperatives were growing and 244 farmers owned more than 15 milking cows. Administered prices and government interference have been eliminated and a modern private dairy sector has emerged. An alliance with 104 other types of cooperatives (in addition to agricultural cooperatives) represents their members before the government.⁹¹

In India, the dairy cooperative movement (discussed elsewhere in this paper) offers three cooperative development approaches to drawing together different linguistic, caste, religious and political groups:

- In the State of Gujarat, Verghese Kurien promoted an approach adopted by Gujarat's dairy cooperatives that fostered participation and access based on patronage, not status. Kurien first served as the general manager of the **Kaira District Milk Producers' Union** and later as the founder chairman of India's National Dairy Development Board. As Kurien has said, "think what it means in a village, when the people stand in line twice daily to sell their milk. They take their place in the queue, regardless of caste or traditional authority. The highest may find himself following the humblest – and each knows that the cooperative – their own cooperative – will treat them as equals and with fairness." Verghese Kurien has been characterized by Nobel prize winner Norman Borlaug as the individual who discovered and practiced "empowerment," "decentralization," "participatory development" and "people power" long before these terms became fashionable;⁹²
- In Maharashtra's Kolhapur District, rather than face the hurdles of social engineering, the dairy cooperative union promoted multiple cooperatives in villages where there were significant caste or religious differences. The approach was based on the belief that, as social differences were subsumed by economic interests, the cooperatives would merge to achieve greater returns to their members (this is slowly happening); and
- A third phenomenon has been the gradual shift in participation in dairy cooperatives in India. As the higher castes which once dominated dairy cooperatives "graduated" to other endeavors, financed by their dairy earnings, the cooperatives have increasingly recruited members from deeper social strata in village society. Today lower castes, tribals and former untouchables have entered dairying in large numbers, replacing the higher castes who have moved into industry and trade.

In **Macedonia**, cooperatives played a role in reducing tensions between ethnic Albanian and Macedonian communities in the west and the north. Six multi-ethnic, local cooperatives in western Macedonia were linked to an existing regional association. In this region, there had been less discrimination and more trust among rural people, so the challenge was to keep external ethnic politics from adversely affecting the way producers lived peacefully and did business.

The regional association developed a short-term crisis plan to deliver spring lambs out of conflict zones to the market, and assure that feed was delivered for sheep still in conflict zones. When conflict ensued in 2001, the crisis plan went into effect. The local co-ops also helped producers identify mountain pastures away from conflict zones since many producers were cut off from their traditional alpine pastures. The cooperatives increased member returns for lambs and cheese by 15 percent; developed a concept paper on ethnic co-operation; and started working groups that addressed common issues of production, processing and marketing with government bodies. These multi-ethnic groups produced a unified sheep sector strategic plan.⁹³

E. 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 Tuy 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.⁹⁴

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.⁹⁵

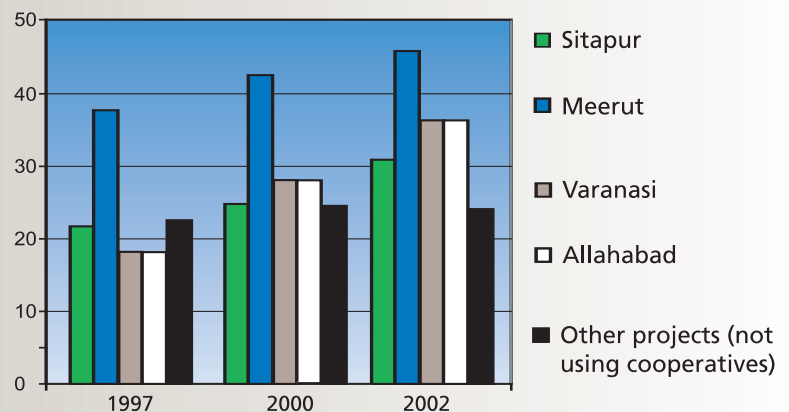
In **Uganda**, the **Uganda Health Cooperative (UHC)** serves rural residents in the southern part of the country with pre-paid health plans that:

- Encourage early treatment of potentially serious diseases;
- Introduce preventive health care that reduces employee absenteeism;
- Distribute insecticide-treated nets to prevent malaria;
- Provide a more stable funding for private health care facilities and hospitals (many of which have a 40 percent non-payment rate); and
- Track patient health status of members and communities.

UHC offers groups of people (including tea and coffee cooperative members, student groups and village organizations) a variety of optional plans and private health providers. As a result of competition, patient services have improved. Each group plan within the cooperative requires voluntary leaders⁹⁶ to:

- Manage the prepayment between the group and the provider, insuring that payment is being used for the health care needs of the members;
- Support member training and education, enrollment and marketing;

Figure 5
Comparison of contraceptive prevalence rate, dairy cooperative projects and other project area



Source: "Linking with Dairy Cooperatives for Large-Scale Community-Based Service Delivery." Center for Development and Population Activities (CEDPA), January 2003.

- Review benefits and coverage;
- Provide liaison between members and providers; and
- Manage and provide a forum for group exchange and training of other co-ops.

Currently, UHC is serving 3,000 clients with 17 fully self-sustaining plans. It is one of the few model pre-paid schemes to continue after initial donor funding ended.⁹⁷

In **India**, a major family planning program linked dairy cooperative members in India's poorest and most overpopulated districts with family planning services. In a successful cooperative approach, family planning was linked with existing cooperative networks of women who already had strong social ties and participated within efficient management systems. By 2003, members of five district milk producers cooperative unions had completed five years of implementation and more than 610,000 family planning clients were served. External evaluations by local Indian research firms found considerable changes including:

- In two pilot districts, contraceptive prevalence rates (CPR) increased from 18 to 31 percent, and from 27 to 45 percent respectively within five years;
- In areas covered by the dairy cooperatives, CPR increased by an average of three percent a year;
- Dairy cooperative volunteers were the major sources of family planning motivation and supplies;
- Family planning mixes shifted dramatically from sterilization to the use of condoms and pills; and
- Social marketing of contraception was readily accepted, as were products promoted by co-op family planning volunteers.⁹⁸

Health care cooperatives are also effective in a more developed setting such as in Brazil. One of the largest provider-owned cooperatives was founded in 1967: the National Confederation of Medical Cooperatives (Unimed do Brasil). By 1995, its member-owners comprised 73,000 doctors (one third of the national total) and 13 million service recipients.⁹⁹ Individual users, as well as 30,000 enterprises providing health insurance to their employees, had contracts and could obtain services from any member doctor anywhere in the country. The Unimed system has established subsidiary enterprises providing life and business insurance, a complementary system of savings and

loans cooperatives, a computerized nation-wide administrative and medical data information system, a system-wide satellite telecommunication system, and a research and development center.¹⁰⁰

3. Engaging Cooperatives in the Fight Against HIV/AIDS

HIV/AIDS has had a devastating impact on the social fabric of the developing world. Sub-Saharan Africa is hardest hit by the pandemic, but HIV/AIDS is spreading in Asia, Europe, Latin America and the Caribbean at an alarming rate. It strikes men and women in their most productive

Cooperatives Assisting in the Fight Against HIV/AIDS

In the Dominican Republic, 2.6 percent of the population is HIV positive. There is serious concern about the pandemic spreading further into the country. **Cooperativa Nacional de Seguros, Inc. (Coop-Seguros)**, an insurance

cooperative based in Santo Domingo, is working with its 40 member cooperatives on several initiatives to combat HIV/AIDS on a number of levels: providing HIV/AIDS prevention education programs to 300,000 people (15% of the total population); removing HIV/AIDS exclusions from life policies and developing catastrophic illness policies which include treatment for HIV/AIDS; helping cooperatives assess financial risks and design mitigation strategies related to potential losses from HIV/AIDS.

In Ethiopia, under the guidance of a U.S.-funded development assistance project, agricultural cooperatives began a three year HIV/AIDS awareness and prevention initiative in 2003. As of mid-2005 the program had reached approximately 262,000 people through **a large network of rural cooperative members and their families in the four regional states of Amhara, Oromia, South and Tigray**. A business and training approach is used to encourage the use of condoms and make them available for sale in the cooperative shops. Training-of-trainer materials are being developed, geared for district-level cooperative promoters. Mobile resource centers are used to stage road shows and informational discussions. Music and drama are used to help impart health messages.

In Zambia and Mozambique, U.S.-assisted programs on farmer association and market development have integrated HIV/AIDS education. In Zambia, the **Rural Group Business Program** began in 1996 and ended in 2004. In over 800 farmer groups and co-ops, approximately 78,500 members and other community inhabitants were involved. In Mozambique 17,000 were reached. New programs initiated in 2005 are expected to reach 150,000 in Zambia, develop 500 community outreach programs and train 500 trainers. In Mozambique, with new program resources, existing co-op networks will educate 340 producer organizations (10,000 households).

In Kenya, credit unions, dairy cooperatives, and NGOs trained by cooperative development organizations are addressing HIV/AIDS:

- **A national credit union, Mwalimu SACCO**, plans to utilize its national membership of teachers to develop a cadre of members and staff to become peer educators in the regions with the highest HIV prevalence rates in Kenya. Research about the financial impact of HIV/AIDS on credit unions and their members serves as the basis for the project. Focus groups with both credit union members and staff were held in March 2005 to learn what type of information is needed, especially in the western regions of Kenya, where HIV infection rates are the highest in the country.
- **A U.S. dairy cooperative, Hoops4Africa, and other donors**, have embarked on a public-private partnership to support a campaign to educate at least 2 million people in Africa about preventing HIV/AIDS, and address the nutritional needs of people who already have the disease – many of whom require as much as twice the amount of some nutrients to combat its ravaging effects. Working with many groups in Kenya, including dairy cooperatives, the delegation is conducting sports clinics and exhibition games and creating public service announcements spreading the Jump4Life motto of “play safe, live long, eat right, stay strong.”
- **NGOs in Kenya** are addressing HIV/AIDS in partnership with the U.S. Centers for Disease Control and a U.S.-based cooperative development organization. The project is applying concepts frequently used in cooperative development to assist NGOs. Although increasing numbers of Kenyan NGOs are working to combat the HIV/AIDS pandemic, many lack the technical, budgeting, fundraising and organizational management skills needed to serve their communities effectively. This local prevention and treatment of HIV/AIDS program is providing assistance that is fostering participatory decision-making, increasing technical knowledge, improving organizational management and fundraising expertise, and expanding education among local NGOs. As a result, participating NGOs are providing more effective prevention, treatment and care services to their communities, and are better enabled to remain fiscally solvent and raise funds on their own.

years, negatively impacting the demographic composition of countries, as well as their social and economic structures.

Morbidity and mortality due to HIV/AIDS deplete household resources and assets and reduce the ability of household members to generate livelihoods and adjust to future shocks. Because cooperatives depend on the economic activity of their members, and on experienced leaders and staff, they are particularly vulnerable to the effects of HIV/AIDS and have a keen interest in addressing its cause and ameliorating its effects.

Developing country cooperatives represent an established and underexploited institutional network that could be more systematically coordinated and funded for HIV/AIDS prevention and mitigation. For example, in Kenya, there are 1.3 million adults and children living with HIV.¹⁰¹ One in five individuals is a member of a cooperative (5.9 million people) and 20 million Kenyans directly or indirectly derive their livelihoods from the cooperative movement. Cooperation among cooperatives to address this challenge could make a massive national impact.

Thousands of cooperative members and their families could benefit from a more coordinated global donor focus on cooperatives as a vehicle for HIV/AIDS education and for care of those already infected. As illustrated in the text box on page 25, co-ops working with U.S. development organizations are just beginning to take up the fight against HIV/AIDS, and concepts frequently used in cooperative development are also being shared with other groups such as NGOs. Considering the broad potential reach of cooperatives in Africa and other HIV/AIDS affected areas and the self interest of cooperatives in dealing with this problem, this work needs to be rapidly accelerated and financed on a much broader scale.

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 are 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 threatens 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 India 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. In some cases (e.g., Tanzania, Zambia and Ghana) they were

seen as a stage on the road to socialism. While there were exceptions, many cooperatives were controlled by the government and/or cooperative regulators.¹⁰² Cooperatives were often used to disburse subsidized loans to smallholder farmers, few of which were repaid to the so-called cooperative banks.¹⁰³

Viable cooperative businesses must operate on the basis of sound commercial principles and on a level playing field. Policies and regulations should not impose pricing and market limitations on cooperatives, restrict access to capital, require cooperatives to operate on little or no margin, or seek to use cooperatives as providers of government services without covering the full costs. While prob-

lems that plague cooperative businesses in developing countries have often been attributed to management issues, financial weaknesses and operational inefficiencies, the role of an inhospitable legal and regulatory environment has been key and very often overlooked.¹⁰⁴

The Cooperative Law and Regulation Initiative (CLARITY),¹⁰⁵ a recent initiative by a group of US-based international cooperative development organizations, sets forth nine basic principles for effective legal and regulatory systems that support cooperative businesses. These principles are a guide for cooperative movements around the world to use in reforming counterproductive cooperative laws and regulations. Core principles include:

CLARITY Core Principles for Cooperative Legal and Regulatory Enabling Environments

- **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 protect-

ing 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.

Brazil has improved the legal and regulatory environment for cooperatives by reforming cooperative laws and reducing strict government control traditionally exercised by the Instituto Nacional de Colonizacao e Reforma Agraria (INCRA) within the Ministry of Agriculture. The change came about through lobbying by the Brazilian cooperative movement and its national apex organization, Organizacao das Cooperativas Brasileiras (OCB). Ultimately, language provided by the cooperative movement was included in the new constitution of Brazil, enacted in 1988. The language mandated the autonomy of cooperatives.¹⁰⁶

The co-op law in force prior to this change had stipulated that cooperatives must “permit any kind of verification by the appropriate control agencies, providing all explanations that are requested.” They were also required to annually remit: a list of new members and members that left the cooperative for various reasons; minutes from assembly meetings; balance sheets; fiscal year reports; and a board of directors’ analysis.

The new constitution reinforcing cooperative autonomy stipulated: “the creation of associations and, under the terms of the law, that of cooperatives is not subject to authorization, and State interference in their operation is forbidden.” The constitution also mandated state support of cooperatives by requiring that: “The law shall support and encourage cooperative activity and other forms of associativism.”

In return for the autonomy, the cooperative movement promised and implemented an intensive “self-management” training program at the operations level so cooperatives could succeed managerially/commercially without government oversight, putting them on equal footing with for-profit firms, both under the law and in competitive markets.

The Brazilian case illustrates the importance of cooperative legal reform in the removal of invasive and inefficient government controls. It provides an example of how other countries can succeed in unleashing cooperatives by providing them with legal standing as independent, member-owned businesses.

Credit unions have addressed legal reform by developing model laws so that these cooperatives meet safety and soundness standards similar to those of other financial

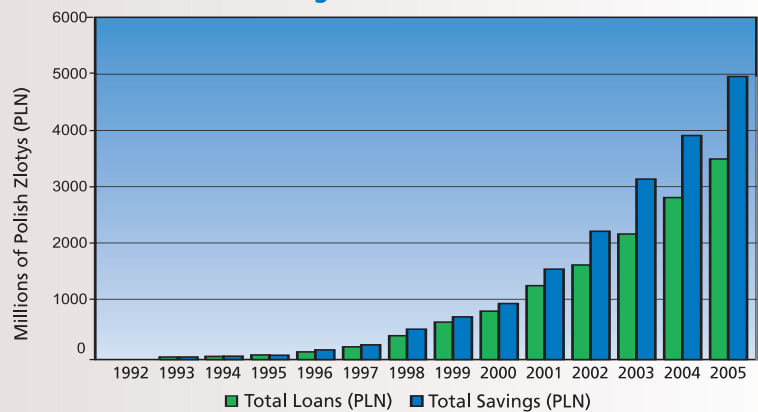
Poland: Cooperative Success in a Transitional Economy

Several types of cooperatives assisted by U.S.-funded development programs have helped Poland overcome obstacles and transition to a market economy:

- Rural and municipal telephone cooperatives raised access in areas served from less than three, to 11 phones per 100;
- The housing market was transformed, demonstrating the cooperative approach with 1,500 new homes and renovations, creating a non-governmental housing foundation and leveraging \$40 million in private funds for housing;
- 300 cooperative banks were privatized and modernized, with the top 64 achieving an average 3.1 percent return on assets, 27 percent return on equity, and solvency ratios superior to those of U.S. banks; and
- The Polish credit union movement grew from start-up status in 1992 to over 1 million households, 1400 service points and assets of nearly US\$1 billion by 2004.

The graph below shows the impressive growth in savings and loans in the Polish credit union system. Savings mobilized in 1992 totaled 4 million PLN, by 2005, mobilized savings reached almost 5 billion PLN; Loans grew from 3 million PLN in 1992 to 3 billion PLN in 2005.

Figure 6
Total Savings and Loans 1992-2005



Source: Polish National Association of Cooperative Savings and Credit Unions (NACSCU) www.skok.pl

institutions. The Model Credit Union Law sets forth requirements on democratic participation, specialization of financial services, management structure, savings and credit services, investments, capital adequacy, financial stabilization and regulation and supervision.¹⁰⁷ Credit union legal reforms were one of the reasons that the Polish credit unions were able to grow to a million members within 12 years. More recently, Uzbekistan passed a law in 2002 that authorized the development of credit unions, established a supervisory unit and an examination process prior to piloting credit unions. Within six months of passage of the new law, multiple credit unions had been formed.¹⁰⁸

Poland's telephone co-ops offer another example of overcoming obstacles to success posed by the legal and regulatory environment. Poland had one of the lowest telephone densities in Europe with less than 2.4 phones per 100 in rural areas. The post-communist reform government encouraged the formation of village telephone

committees for self-help efforts to build rural systems. In southeast Poland, local elected mayors and dozens of village telephone committees organized two telephone cooperatives. Because the towns had bonding authority, they had the ability to obtain loans from a local bank and the Ex-Im Bank to purchase central switches (the heart of the system) and to carry out self-help construction of lines, buildings and other facilities.

Through lobbying, Polish cooperatives added provisions to the Telecommunications Act of 1990 that permitted independent telephone systems and created a focal point for rural telephone cooperatives. Co-ops used the law to become the first independent operators in Poland. However, they faced continuing and difficult challenges from the state monopoly and its entrenched bureaucracy that continued to control the national and international traffic, and unwritten regulations from the Ministry of Telecommunications governing interconnection and revenue sharing agreements, and use of utility poles. Again, it took political pressure from senior parliamentarians to negotiate a fair sharing of revenues, critical for the cooperatives to be profitable.¹⁰⁹

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 Haavelar after a fictional Dutch character.¹¹¹ The Max Haavelar Foundation joined with TransFair International in Germany in 1998 as the Fairtrade Labeling Organizations

International (FLO).¹¹² 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.¹¹³

In 1986, Equal Exchange, a workers Fair Trade coffee cooperative was formed in Boston. Major clients of Equal Exchange were initially religious groups. Equal Exchange coffees and teas are now distributed by major grocery chains including Kroger, Safeway and Albertsons, in approximately 1,800 mainstream stores.

The U.S. is the world's largest importer of coffee. According to the Specialty Coffee Association of America, in 2004 16 percent of adult Americans enjoyed a daily cup of specialty coffee.¹¹⁴ Fair Trade certified coffee is the fastest growing segment of the specialty coffee market and about two percent of the world market. Specialty coffee comprises \$1.7 of the \$5 billion U.S. coffee market (35 percent).¹¹⁵ In 2003, 18.5 million pounds of green coffee was Fair Trade certified with a value of \$208 million in retail sales, a 90 percent increase in one year.

In 2003, U.S. coffee roasters selling Fair Trade certified coffee for at least two years saw an average of 125 percent increase in sales. For example, Green Mountain Coffee Roasters grew 92 percent in Fair Trade business in 2003. Currently, more than 300 U.S. coffee roasters and importers are licensed to sell Fair Trade coffee in some 20,000 outlets. Since April 2000, Starbucks Coffee has purchased more than 4 million pounds of Fair Trade coffee and 2.1 million pounds in fiscal year 2003, yet it represents only about one percent of their total purchases.

There are currently 166 organizations, a number of which are second tier associations of cooperatives (unions) representing more than 500,000 coffee farmer households throughout the world on the FLO fair trade register. Registered cooperatives can earn three to five times more than they would receive through traditional marketing channels. Licensed Fair Trade importers pay about \$1.26/lb (\$1.41/lb if organic) to Fair Trade coffee cooperatives. Importers make available up to 60 percent of the value of the contracts in pre-financing. It is estimated that Fair Trade coffee has provided \$34 million over five years in additional income to small-scale producers.

Ethiopia, Rwanda and East Timor are excellent examples of the impact of the Fair Trade paradigm in helping farmers enter into international trade at guaranteed premium prices paid directly to producers. This shortens the supply chain through direct purchase. As well, these examples show how, through this opportunity, co-ops help people recover from repressive governments and a history of conflict.

In **Ethiopia**, over a period of six years, U.S. development assistance supported the successful reorganization and strengthening of 735 primary cooperatives, 32 regional cooperative unions and 96 Savings and Credit Cooperatives (SACCOS), representing a total of over

735,000 rural households producing coffee, cereals, horticultural crops, oilseeds, livestock, dairy products and sugar. The project helped 180,000 Ethiopian coffee farmers and their cooperatives win credibility and higher prices in the specialty coffee market. In five years, total Ethiopian coffee exports have increased by 63 percent, from 94,000 MT in 2000/01 to 153,600 MT in 2005/06. Four small-holder coffee cooperative unions representing 180,000 farm families exported over 17,500 MT of traceable specialty coffee directly to foreign traders and roasters in 2005-06. Fair Trade and organic certification, annual coffee competitions, and Internet auctions are becoming regular practices, and more international trading companies are visiting Ethiopian producers. In 2005, Shirkina dry-processed gourmet coffee produced by Ferro Cooperative in Sidama was designated Starbucks' eighth Black Apron Exclusive.¹¹⁶

In **Rwanda**, following the genocide, by the time fighting ended, large tracts of farmland had been abandoned, the coffee harvest declined by half, and more than 80 percent of the cattle were lost.

Many household enterprises had been destroyed and looted. According to a USAID evaluation:

“Rapidly ensuring fair market access for coffee growers and farmers picking coffee from abandoned fields is probably the most efficient and effective means to re-monetize the rural economy. Ironically, at the same time that relatively little is being done to reconstruct the coffee marketing and processing system, relief agencies are rushing to develop projects to inject funds into the rural economy.”¹¹⁷

The new Rwandan government seeks to reduce populations working in agriculture from 90 to 50 percent within two decades, and transform the subsistence economy into a market-based economy through cooperatives, especially for marketing and extension services.¹¹⁸ The goal is to produce higher-quality coffee through the construction of washing stations. One cooperative had produced 50 tons of coffee which fell to 32 tons in 2002 and zero in 2003.¹¹⁹

A USAID-funded Title II food security program¹²⁰ for agribusiness development provides grants¹²¹ and revolving

funds to cooperatives¹²² to develop sustainable business strategies. It assisted two cooperatives to qualify for Fair Trade. Members were able to receive \$1.33/lb for 13 tons from a London specialty roaster; and \$1.36/lb for 18 tons from Community Coffee, a wholesaler in Baton Rouge, Louisiana. The cooperative generated a net profit of \$32,000 in the first year, and \$50,000 in the second year.¹²³

Cooperatives' Role in the Fair Trade Value Chain in Ethiopia

Source: <http://www.coopdevelopmentcenter.coop/fairtrade/coffee.htm>

The following example of coffee cooperatives from Ethiopia shows the difference between Fair Trade and Non-Fair Trade supply chains.

In both types of supply chains, the first two steps in Ethiopia are:

- 1) The farmer plants and tends the coffee
- 2) Farm workers harvest the coffee

However, from this point on, the Fair Trade supply chain and the Non-Fair Trade supply chain diverge.

FAIR TRADE

- The farmer sells the coffee to the Fair Trade Cooperative, of which he is a member. The cooperative washes, dries, and packages the coffee for shipment to ATOs (Alternative Trading Organizations) in the developed world. The coffee is transported to Addis Ababa for shipping overseas.
- The coffee is sold to the ATO by the cooperative for a minimum of \$1.26 per pound. The ATO roasts and packages the coffee to prepare for sale to the final consumer. Sale to the final consumer can happen either through ATOs or retail channels.

NON-FAIR TRADE

- The harvested coffee is sold to wholesalers or collectors or to the cooperative. The coffee is then dried and transported to Addis Ababa.
- The coffee is then sold at auction, often to exporters. The usual price for regular coffee is 30-30 cents per pound; for premium coffee is can be 70-90 cents per pound.
- The exporter sells the coffee to a roasting company, such as Kraft, Sarah Lee, or Starbucks. The roasting company roasts the coffee, blends it with other kinds of coffee and prepares it for the final consumer. If the company sells bagged coffee, the coffee is bagged for sale. If the company operates coffee shops, the coffee is roasted and prepared for drinking.
- The coffee is sold to the final consumer, at a markup of 1200-1500 percent over what is paid the farmer.

Rwandan credit unions are providing credit to the Fair Trade coffee cooperatives. For example, credit was provided to *Abahuzamugambi de Maraba* coffee cooperative to build a coffee washing station, contract a technical consultant to supervise coffee washing, and hire a marketing consultant to present the coffee at international trade shows. This practice has expanded to other coffee coop-

eratives. In these cases, all members must join the local *banques populaire* by opening a savings account. The cooperative utilizes a large loan from UBPR (second tier credit union) to deposit payments to the farmers directly into their savings accounts. At the time of the deposit, the UBPR automatically deducts the loan repayment, limiting the risk of default. Through membership in the credit union, the farmer has greater access to savings and credit opportunities.¹²⁴

In **East Timor**, Fair Trade cooperatives produce some of the finest specialty coffees in the world. Coffee is the backbone of the rural economy.¹²⁵ Since 1994, assistance activities¹²⁶ in East Timor have helped build a network of agricultural coffee cooperatives with a membership of some 20,000 small-scale farm families (approximately 120,000 persons). Cooperatives that were government-controlled have been replaced by genuine cooperatives¹²⁷ that are member-owned and business-oriented. The cooperatives focus on production and processing of specialty coffees, the principal cash crop, for export. These coffee cooperatives are the largest employer, health care provider and exporter.¹²⁸

In 1999, assistance programs in East Timor were interrupted by violence associated with the political transition and vote for independence. The cooperatives experienced particularly heavy losses, with buildings burned, equipment destroyed, vehicles looted or stolen, and records lost. Once the violence ended, the project became the first economic development program to re-start and provide immediate income-generating opportunities to thousands of Timorese.¹²⁹ The staff assisted in the return of refugees from West Timor. The rapid renewal of activities injected urgently needed cash into the rural economy.

The cooperatives were able to rehabilitate damaged facilities and achieve significant increases in production and processing.¹³⁰ They established commercial channels for the procurement and distribution of consumer goods, construction material and farm inputs from West Timor and East Java and sold these items to small-scale traders in East Timor. The project employed several thousand Timorese in coffee processing; provided an immediate market for farmers to sell their stocks of dried coffee from the previous season; and re-activated the health care component serving 10,000 rural patients a month.

Cooperatives brought subsistence producers off the sidelines and into the mainstream economy. The volume and the quality of East Timor coffees had declined markedly during the years of civil unrest. Prices dropped to such low levels that many producers turned to subsistence agriculture. With the initiation of the cooperative project, the situation changed dramatically. The cooperatives improved quality so that East Timor could re-enter international markets. Farmers affiliated with the program agreed to abide by strict production and quality require-

ments. Through extension agents, producers adopted modern techniques which, in just two years, resulted in the East Timor specialty coffees commanding a premium price on the world market.¹³¹ East Timor's cooperatives, and nearly 500 affiliated self-help groups, procure coffee, process it and serve as linkages between the producers and the export market.

Today, East Timor cooperatives market 50 percent of the national coffee harvest and employ 300 full-time people and 4,200 seasonal workers. Financial analysis in 2001 indicated that the cooperatives were profitable, generating \$267,000. In 2004, the cooperatives established direct purchasing arrangements with Starbucks in Australia.¹³² As East Timor's only viable rural enterprises, the cooperatives have been encouraged by the government to provide primary health care. The average annual payment to a member is \$120 plus a dividend of \$14 depending on the costs of operating the health care component.¹³³

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. In some countries such as Uganda, Kenya and Albania, cooperatives were disbanded when government support was withdrawn.

Ethiopia provides an example of cooperatives moving successfully from government control to member ownership. Cooperatives became successful when they reoriented and restructured themselves as private businesses that were able to increase member productivity and access national and international markets. In 1997 Ethiopian cooperatives began the transition from a socialist orientation under the repressive Derg regime, to a free market, business-driven approach which has spurred economic development. U.S technical assistance has helped carry out plans to privatize business and industry by assisting agricultural cooperatives in becoming farmer-owned and farmer-controlled, profitable and governed in a democratic fashion.¹³⁴

The Ethiopian reform government supported the transformation by placing a high priority on food security and self-sufficiency and promoting cooperatives as part of its rural and agricultural development strategy. Government proclamations revised outdated provisions and supported farmer-owned and controlled cooperatives. Farmer members began democratically electing their leaders without government intervention. Cooperatives were no longer state instruments.

The recent growth and profitability of cooperatives in Ethiopia has removed their negative stigma. Market-oriented, multi-purpose primary agricultural cooperatives have restructured, with independent boards of directors and managers; and registered under new cooperative legislation. Concurrently, cooperative unions now serve as business support units for primary cooperatives, which provide greater economies of scale, bargaining power, and influence for primary cooperatives.

Governance has improved and books of accounts are regularly audited. To change and revitalize cooperatives, several interventions (in addition to improving the enabling legal environment) were critical:

- Professional managers were hired to manage the unions; board members and managers were trained, and non-government auditors were trained to conduct regular audits;
- Cooperatives began to operate as businesses and to be based on profits and equitable distribution of capital through patronage dividends (annual business plans are now required);
- The cooperatives achieved creditworthiness through a credit guarantee by the Commercial Bank of Ethiopia (CBE) which now provides inventory credit; and
- Savings and credit services were institutionalized for savings mobilization and members could borrow working capital for grain and other purchases - a major breakthrough in rural finance.

In Ethiopia, overall, cooperatives have become increasingly important to individual members, the community, the business sector and the national economy. More than 85 percent of the total inputs in rural areas are now distributed through cooperatives; and they are responsible for over 75 percent of coffee exports, the country's major foreign exchange earner. As noted earlier in this text, coffee unions are exporting high quality, organic and Fair Trade coffee to the United States, Europe and Japan, earning premium prices for their members.¹³⁵

Despite continuing challenges in Ethiopia, this country serves as a contemporary example that, over time, socialist cooperative societies designed to serve solely the interests of the government can be rehabilitated and revitalized as market-oriented private business organizations that can bring farm households up from extreme poverty.

Mozambique cooperatives turned around in similar fashion. Between 1996 and 2001, local trainers helped build a network of 75 local and regional cooperatives (democratic farmers' associations) and 714 group-based agribusinesses were created. Given the negative reputation of previous government-formed and controlled cooperatives, the term "cooperative" was not used. Nonetheless, the associations developed along the lines of cooperative principles.

A study conducted by Michigan State University found that the emerging farmer associations in Nampula facilitated and brokered a range of agricultural services, including input supplies, marketing, credit and extension services. Associations expanded the delivery of inputs by reducing transactional costs and risks by aggregating demand, and through group guarantees for credit repayment. The companies responded to increased demand by introducing modern agricultural technologies especially in seeds, fertilizers and pesticides. In the early stage of transition, the project proved that Mozambican producers were receptive and quickly adopted cooperative concepts. These group-based businesses brought rapid economic development that reached over 25,000 smallholder families. Twenty-eight secondary marketing organizations were created for the purchase and sale of agricultural commodities. Other benefits included a major expansion in functional literacy and numeracy for 10,000 rural producers (45 percent of participants were women).¹³⁶ The project training resulted in a more profit-oriented attitude and empowerment that was demonstrated through self-help initiatives in infrastructure building, dialogue with local government officials and ability to establish strong partnerships with private companies.¹³⁷

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.

Other reasons why successfully scaling up cooperative businesses is a special challenge range from the difficulty of reaching “threshold” capital initially to form and then sustain new large enterprises in the early going; to the inherent awkwardness of democratic organization and decision-making; to simply lacking the professional know-how necessary to succeed in tackling new, more complex large-scale undertakings. There is also evidence of an upper scale limit to the cooperative form of business, as increasing the size of operations has tended to isolate managers and directors from the members they serve, which can lead to a breakdown in basic governance and cohesion.

Particularly in developing countries, in some areas such as financing, prevailing cooperative law and regulations do not favor cooperative approaches and cooperatives may also be forced to adopt unfamiliar, non-cooperative business structures to address scaling-up. In such circumstances they can be slow to recognize the need to adapt to a new business milieu, including the need to acquire external expertise and managerial know-how.

An illustration of the need and challenges to reach market scale is the recent attempt of electric cooperatives in the **Philippines** to address their capital financing requirements. In 1969 the Government of Philippines determined that it would adopt a cooperative format for rural electrification development, modeled on the successful experience of the U.S. Rural Electrification Administration launched during the “Second New Deal” of the Franklin D. Roosevelt presidency in 1935 and having a dramatic economic effect on rural America. The Philippines experience was equally dramatic. Two small demonstration projects funded with U.S. development assistance¹³⁸ led to a

massive and highly successful national electrification campaign which today comprises 119 cooperatives operating in virtually all of the Philippines and serving some 40 million people.

As in the U.S. case, the time came when government declined to continue as the sole financier and, in the late 1990s, the cooperatives were forced to seek other sources for their capital financing requirements. As relatively small rural utilities, however, the opportunity to obtain credit outside the government's financing program was open to only a handful of the strongest and largest co-ops. In 2000, fifteen of the more prosperous electric cooperatives formed a new business enterprise, the Rural Electrification Financing Corporation (REFC), organized as a private for-profit corporation. Starting with a modest capitalization level, REFC is today a profitable business with nearly 50 cooperative investors. The company has quadrupled its equity and has an expanding loan portfolio with a zero-default track record.

REFC faces challenges but it illustrates how cooperatives can obtain scale to access even the most difficult of markets. Of the challenges, overcoming the notoriously unstable financial markets in the Philippines is the greatest – few private lenders are able to enter into the type of long-term financing cooperative utilities require. REFC's lending capacity remains far below the combined demand of its owner-borrowers, reflecting the co-ops' difficulty – as non-profit business regulated to operate on a break-even basis – to provide the equity capital needed to attract debt financing. REFC and its owners will need to adopt a more flexible policy on attracting external equity and management to achieve rapid growth. Also, REFC's credit strength is based largely on the financial strength of its cooperative “members” and REFC will need to play a leadership role in adapting its borrowers to the rigors of the private financial marketplace. The existence of this new vehicle gives electric cooperatives in the Philippines a window on the real world of commercial financing. In time may serve to educate the electric cooperative community's leaders on what it will take to make this kind of undertaking successful.

Vanilla cooperatives in Indonesia offer another current example of moving from a small scale effort to large scale impact with multiple cooperatives participating in the global economy. From a very modest beginning involving the participation of only a few cooperatives, vanilla production, processing and export activities in Indonesia have spread to more than 50 other cooperatives and farmer organizations in many regions of the country, including Java, Sumatra, Bali, Lombok, Sulawesi, and West Nusa Tenggara. The overall impact has brought large numbers of rural producers off the sidelines and into the mainstream of the country's economy.

For many years, government controls repressed the potential of vanilla cooperatives. Over a period of several decades, the Government of Indonesia (GOI) promoted and assisted the development of cooperatives as a means of channeling farm inputs and providing training and marketing services to the country's agricultural sector.¹³⁹ Although designated as "cooperatives," the structure was essentially a hierarchy of parastatal agencies whose survival depended on government subsidies rather than on the effectiveness of their business operations or the quality of their member services. Almost all of these entities were constrained by the lack of motivated leadership and professional management, insufficient business skills and a lack of knowledge about the requirements of the international marketplace. When the government eventually eliminated the subsidies, many of the cooperatives simply ceased to function.

During the period of state subsidies, the system placed all authority in the hands of the provincial level cooperative organizations, which were far removed from their farmer members. Consequently, the decision was made to focus U.S. development assistance on district and local units, which proved to be more flexible and more able to respond to member needs. These units became the primary recipients of technical assistance and marketing services.

With targeted assistance (which included an intensive program of farmer training, the introduction of new harvesting and post-harvest handling techniques, and the adoption of improved processing procedures) the cooperatives were able to make significant quality improvements and increase output volume. In just two harvest seasons, the vanilla processed by the cooperatives began commanding higher prices on the international market, resulting in over a 40 percent increase in vanilla producer incomes.

In this context, the vanilla cooperatives provide an example of how formerly subsidized cooperatives emerged from government dependency to develop highly effective business activities to benefit their members. For many decades, the limited and sporadic exports of Indonesia's vanilla cooperatives merited only the lowest prices on the international market.¹⁴⁰ Yet, feasibility studies had identified vanilla as a potentially important crop for small farmer production. The studies also identified the most important vanilla quality issues as premature harvesting, improper processing and a dependence on third-party marketers who absorbed a large share of the sales receipts.

The high quality of the vanilla and the newfound business reliability of the cooperatives eventually led to the development of a joint venture with the world's largest spice company, which has resulted in the Indonesian cooperatives now supplying more than 50 percent of annual U.S. vanilla imports. The joint venture has become the world's largest vanilla processor and exporter.

VII. Enhancing the International Cooperative Research Agenda

United States leadership is needed in the research and development of solutions to the critical issues impacting cooperative development in a changing global economy. Currently, resources are limited and international cooperative development research tends to be a secondary area of emphasis under studies on civil society, NGOs, farmer associations, rural participation, democracy and poverty alleviation. An exception is the area of finance where credit unions, cooperative banks, micro-insurance and business development services are usually emphasized.

As a result of *The Support for Overseas Cooperative Development Act of 2000*, the subsequent report *Implementing the Support for Overseas Cooperative Development Act of 2000*, and the most recent 2004-2009 renewal of USAID central support for cooperative development, elements of a learning agenda have emerged.

Because of the importance of drawing on academic and research institutions, university-based cooperative scholars were interviewed in the process of preparing this paper. While most available U.S. research funds are intended to address state-based cooperative issues, these scholars indicated a growing interest in global cooperative development. Many researchers have worked on projects or studies overseas, some have immigrated from developing countries, and most have students interested in these issues. They represent a network of academic expertise that should be better tapped and engaged by cooperative development organizations and donors to build intellectual capital and to design strategies to expand contemporary global cooperative development.

Key issues for further research and learning, synthesized from the above sources, include:

- **Capitalization.** In developing countries, the lack of capital can be a major challenge to cooperative development. Dependence on governments or donors restricts growth, allows outside control and reduces autonomy, commitment and participation of members. To grow and survive in today's competitive marketplace, co-ops will need to raise more money from their members and possibly from commercial sources. Research is needed on constraints to successful capital formation in cooperatives, along with the development of cases demonstrating effective solutions in developing country contexts.

- Legal and Regulatory Environments for Success.** As noted in this document, the Cooperative Law and Regulation Initiative (CLARITY) project sets forth basic legal and regulatory systems that need to be in place for cooperatives to thrive. However, additional research is needed on the enabling environment for cooperatives in specific developing countries with poor cooperative law so that the legal framework can be improved and cooperatives can thrive. This includes identification of the conditions that exist when a country is prepared to consider reform, development of legislative alternatives, constituency creation, forming alliances and using media to influence the political process. In many countries, particularly transition economies, work is urgently needed on laws and regulation in order to enable co-ops to survive in the competitive marketplace.
- Improving Governance and Participation.** Successful cooperatives are characterized by high levels of member patronage, financial contributions and participation in democratic governance. Reasons for weakness in the links between membership, leadership and management responsibility and accountability need to be researched and strategies and approaches developed to minimize these weaknesses. New frameworks for participation and new organizational approaches such as new generation co-ops should be investigated.
- Cooperatives and Conflict.** Anecdotal and historical information suggest that cooperatives make significant contributions to both conflict prevention and to recovery of economies emerging from conflict. Co-ops mainstream poor and disaffected groups, give people a stake in the economy and help re-build fractured societies. People who have a stake may be less prone to conflict. But additional empirical evidence is needed to better identify specific traits and activities that mitigate against violence and conflict and to make the case as to where cooperatives should be the preferred development option. More knowledge is needed about the relationship of successful co-ops to a country's ability to provide a sustainable economic model. In developing country poverty situations, what relationship does this have to sources of conflict and terror?
- Change Strategies.** Technical advisory services and other interventions have contributed to cooperative development in developing countries for decades. However, short-term technical assistance frequently lacks a strategic approach constructed around the stages of adoption and the characteristics of adopters and successful innovations. The research question is: how can developing country cooperatives best be assisted to: 1) identify internal and external barriers to success; and 2) adopt and implement the most strategic and sustainable change strategies?
- Impact-Oriented Development Assistance Design.** The design of development projects significantly influences ultimate results. The question is to how to develop an approach to the design of cooperative development projects that creates a set of working hypotheses based on critical issues; then to collect data and analyze information around those issues, in order to design sequenced interventions with broad scale results.
- Cooperatives/Corporations/Producer Associations.** Further research is needed on the effectiveness of cooperatives versus private businesses and/or other producer organizations in a variety of developing country settings. What are the conditions in which cooperatives can be most successful? Are there cultural dimensions – beliefs and values – that are preconditions to the success of cooperatives or, alternatively, can the success of cooperatives strengthen the beliefs and values that contribute to the overall social fabric and contract?
- Transitioning from Donor Support to Commercial Operations.** Related to design is planning from the outset cooperative development projects that accelerate progress toward self-reliance and minimize dependency. Issues affecting the ultimate independence of developing country cooperatives include: how to incorporate elements that promote financial, managerial and technological independence in development project design; the best ratio of external funds to member funds; responsibilities most appropriate to cooperative boards and management versus project managers; the balance between institution building and service objectives and the timeframe of the basic planning.
- Reaching Salience and Scale.** A cooperative's success is often related to salience and scale. Salience is the importance of the role played by the cooperative in the lives of its members, in its community and in the sector of the economy in which it works. Scale is growing to a size and reach that allows influence on social, economic and political issues. Questions in this area include: how is achieving salience related to the qualities of leaders and management, the potential competitive advantage of a cooperative dealing in specific types of business, its performance, linkages to other cooperatives or businesses that provide market influence? To achieve adequate scale, what changes and adaptations are needed in the areas of governance, planning, management, service delivery, evaluation, anticipation, etc., and how should these changes be timed?
- Forging New Alliances.** How can developing country cooperatives engage U.S. and other advanced economy cooperatives, privately-owned enterprises, foundations, PVOs and others in alliances that contribute to the long-term benefit of these cooperatives and their alliance partners? How can a self-reliant cooperative in a developing or transitional economy enter into the same types of business relationships and other alliances that devel-

oped economy cooperatives pursue in the interest of their members? For example, how can the participation of international and domestic firms facilitate market access, financing, technical support, and the provision of technology?

- **HIV/AIDS and Cooperatives.** HIV/AIDS is a grave threat to the cooperative movement, particularly in Africa. But, at the same time, cooperatives are an ideal setting for HIV/AIDS education for large numbers of people and a point of contact for counseling and delivery of medical supplies and services. The question is: what overall strategic approach can be developed to bring together the motivation that cooperatives have to deal with HIV/AIDS, their potential roles in education and service delivery, and donor resources needed to realize that potential on a large scale?
- **Opportunities for Youth.** Little cooperative development assistance is given to developing countries dealing with severe youth unemployment. The absence of a comprehensive strategy for youth employment can stifle a growing economy, particularly in transitional countries. Despite the fact the majority of the population in many developing countries is under the age of 35, youth are often not considered in cooperative development projects designed to boost economic growth. Research is needed on how youth can be most effectively engaged in positive economic activity. As well, how can existing cooperatives best meet the critical needs of youth such as HIV/AIDS education and training (e.g. youth peer educators to provide information HIV/AIDS risk reduction and prevention as well as voluntary testing and counseling)?
- **Improving Assessment Tools.** The learning agenda stimulated by USAID's Cooperative Development Program has included the development of a framework to assess cooperative development and its field-testing through case studies. Case studies were carried out in a common format, including: (1) a description of the cooperative project, its implementation and impact; (2) description of the cooperatives' governance, business operations, salience and importance to members and the community; and (3) financial analysis. The framework was tested in 10 countries and among 12 cooperatives (or groups of cooperatives) from various sectors and levels of cooperative development. Lessons learned from the field testing of this methodology were shared, but the framework needs additional testing and development.¹⁴¹ Currently, most analysis of cooperatives is anecdotal. International cooperative researchers could apply this assessment tool in a variety of settings and build a cadre of case studies with comparable common elements.

The field of cooperative development needs additional intellectual capital and an organized network of U.S. researchers to address contemporary and future interna-

tional cooperative development issues, further document the broad scale contributions of cooperatives to development, and open up new sources of additional donor funding.

VIII. 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.

Well conceived cooperatives endure, providing they adapt to changes in their environment and the changing needs of their members. With the highest per capita number of cooperative members (2.5 million) Finland formed successful cooperatives that survived through the Russian revolution, two World Wars and economic downturns, and today are the largest employers in the country.¹⁴³ 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. At this juncture, work in global cooperative development is more important than ever. As development assistance focuses increasingly on helping developing countries recover from social, political and economic crises and on preventing "fragile states" from falling into crisis situations, 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.

As countries and donors move beyond emergency relief to truly transform the situation of people in developing countries, 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. International and donor institutions have minimized investment in cooperative development assistance. They often turn to associations or other producer organizations. Yet, there are critical differences between groups that advocate for or represent farmers and cooperatives as group-based businesses with member ownership as a main principle.

It is evident that there is a renaissance of cooperatives taking place today 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.

Appendix I

Interviewees

The following cooperative development leaders provided important contributions toward the development of this paper:

Baker, Chris Ph.D. Former CEO, World Council of Credit Unions (WOCCU), Madison WI. Former Acting President and CEO, Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), Washington, D.C.

Becker, John. Policy Advisor, Office of the Director of Foreign Assistance, Washington, D.C.

Carter, Thomas. Cooperatives Coordinator, Office of Private and Voluntary Cooperation-American Schools and Hospitals Abroad, Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA/PVC-ASHA), Washington, D.C.

Cawley, Jim. Vice President, International Development, National Cooperative Business Association (NCBA), Washington, D.C.

Chaddad, Fabio Ph.D. Assistant Professor, School of Economic Sciences, Washington State University, Pullman, WA.

Chamard, John Ph.D. Professor, Director - Masters in Management: Cooperatives and Credit Unions, Sobey School of Business, St. Mary's University, Halifax, Nova Scotia.

Cook, Michael L. Ph.D. Robert D. Partridge Chair Department of Agricultural Economics, University of Missouri, Columbia, MO.

Cropp, Robert Ph.D. Professor Emeritus - Center for Cooperatives, University of Wisconsin, Madison, WI.

Ebrahim, Alnoor Ph.D. Associate Professor, Co-Director - The Institute for Governance and Accountabilities, School of Public Policy and International Affairs, Virginia Polytechnic Institute and State University, Blacksburg, VA.

Fairbairn, Brett Ph.D. Professor, Former Director - Center for the Study of Cooperatives, University of Saskatchewan, Saskatoon. SK.

Fulton, Murray Ph.D. Professor, Director - Center for Studies in Agriculture, Law, and the Environment; Acting Associate Dean - College of Graduate Studies, University of Saskatchewan, Saskatoon, SK.

Hazen, Paul. President & CEO, National Cooperative Business Association (NCBA), Washington, D.C.

Hermanson, Judith Ph.D. Senior Vice President, Cooperative Housing Foundation International (CHF International), Silver Spring, MD.

Hine, Sue Ph.D. Associate Professor, College of Agricultural Sciences, Colorado State University, Fort Collins, CO.

James, Harvey Ph.D. Assistant Professor, College of Agriculture, Food, and Natural Resources, University of Missouri, Columbia, MO.

Kendro, Maria. Interviewed as Vice President, International Programs, National Telecommunications Cooperative Association (NTCA), presently Executive Director, Communications Cooperative International, Arlington, VA.

Lennon, Barry. Bureau for Economic Growth, Agriculture, and Trade Services, United States Agency for International Development (USAID), Washington, D.C.

Leonard, Carl H. President and CEO, ACDI/VOCA, Washington, D.C.

MacPherson, Ian Ph.D. Professor, Founder & Director - British Columbia Institute for Cooperative Studies (BCICS), University of Victoria, Victoria, B.C.

McClintock, Cynthia Ph.D. Professor, George Washington University, Washington, D.C.

McGinnis, Vern. Vice President, Strategic Planning and Corporate Services, GROWMARK, Bloomington, IL.

Neto, Sigismundo Bialoskorski. Professor, School of Business and Economics, University of São Paulo, São Paulo, SP.

Nilsestuen, Rod. Secretary, Wisconsin Department of Agriculture, Trade and Consumer Protection, Madison, WI.

Nooter, Rob. Director of the Washington DC Office, Land O' Lakes International, Washington, D.C.

Potter, Edward. Executive Director, The Americas Association of Cooperative/Mutual Insurance Societies (AAC/MIS), McLean, VA.

Reynolds, Anne. Assistant Director - Center for Cooperatives, University of Wisconsin, Madison, WI.

Rothschild, Joyce Ph.D. Professor, School of Public Policy and International Affairs, Virginia Polytechnic Institute and State University, Blacksburg, VA.

Ruth, Leland H., President Emeritus, Agricultural Council of California.

Schwartz, Karen. Former Executive Director, The Americas Association of Cooperative/Mutual Insurance Societies (AAC/MIS), McLean, VA.

Smith, Stephen Ph.D. Professor, Director - Research Program in Poverty, Development, and Globalization, Co-Director - George Washington International Nongovernmental Organization Team (GW INGOT), George Washington University, Washington, D.C.

Sykuta, Michael Ph.D. Assistant Professor, College of Agriculture, Food, and Natural Resources, University of Missouri, Columbia, MO.

Zeuli, Kim Ph.D. Assistant Professor, Center for Cooperatives, University of Wisconsin, Madison, WI.

Appendix II

Members of the Overseas Cooperative Development Council

Americas Association of Cooperative/Mutual Insurance Societies (AAC/MIS)

The Americas Association of Cooperative/Mutual Insurance Societies is a regional association of 55 cooperative and mutual companies in 22 countries throughout North, Central and South America and the Caribbean. Originally formed by credit unions, cooperatives, associations, mutual organizations and farmer groups, cooperative and mutual insurers were created to serve people without access to affordable insurance. In developing countries, AAC/MIS members develop affordable insurance products that reduce the personal and business risks of low-income households and microenterprises.



ACDI/VOCA

Founded in 1963 by U.S. farmer cooperatives and later joined by farm credit banks to help co-ops in developing countries, ACDI/VOCA today works broadly to empower people to succeed in the global economy. ACDI/VOCA offers full-service technical and management assistance to farmers, entrepreneurs, cooperatives and other businesses, associations, nongovernmental organizations, financial institutions and government agencies to expand economic opportunity and create a vibrant civil society. It currently implements over 90 projects in nearly 40 countries and has worked in 145 countries worldwide.



Communications Cooperative International (CCI)

CCI strives to improve the quality of life in rural and underserved communities around the world by expanding access to information and communications technologies through locally owned and managed businesses. CCI provides technical assistance, training and expertise to public- and private-sector stakeholders at the national, regional and local levels. Its programs are based on the principles of partnership, entrepreneurship and sustainability.



CHF International

CHF International is a nonprofit organization dedicated to the development of community, habitat, and finance. CHF serves as a catalyst for sustainable positive change in low- and moderate- income communities around the world, helping families improve their economic circumstances, environment, and infrastructure. The organization has been providing technical expertise and



leadership in international and domestic development since 1952, including critical emergency management following disasters and civil conflict. CHF has worked in nearly 100 countries worldwide.

Land O'Lakes, International Development



Land O'Lakes applies an integrated approach to international development that capitalizes on its 85-year history as a leading farm-to-market agribusiness. Land O'Lakes International Development brings its in-depth knowledge of crop, livestock and dairy production, marketing, business management and cooperative principles to every international development project. Since 1981, Land O'Lakes has created profitable businesses and driven economic growth through more than 135 projects in nearly 70 developing countries.

National Cooperative Business Association (NCBA)



Founded in 1916 as the Cooperative League of the USA, the National Cooperative Business Association is the oldest cooperative development association in the United States. For more than 50 years, NCBA's CLUSA International Program has worked in developing countries to reduce poverty and empower individuals and communities through an approach rooted in cooperative principles. This approach relies on democratic practices and encourages development of sustainable group businesses and community-managed services. In a typical year, NCBA assists cooperatives and other group businesses that benefit 3.5 million people worldwide.

National Rural Electric Cooperative Association (NRECA)



NRECA International, Ltd., a wholly owned subsidiary of the U.S. National Rural Electric Cooperative Association, transfers lessons learned from the electrification of the rural U.S. to projects in developing countries. Through electric cooperatives, people in developing countries not only gain access to electricity but also build the infrastructure themselves and learn to manage sustainable businesses. NRECA harnesses the knowledge and skills of employees of U.S. electric cooperatives to conduct its international projects.

World Council of Credit Unions, Inc. (WOCCU)



As a global trade association, World Council of Credit Unions serves the interests of 157 million credit union members in 92 countries. Through technical assistance and credit union development tools, WOCCU improves credit union performance so that these financially sustainable institutions can offer members access to safe savings, affordable credit and the chance for a better tomorrow. WOCCU programs are designed to increase demand-driven financial services and bolster credit union growth and efficiency.

ENDNOTES

- ¹ P.L. 106-309, amending Section 111 of the Foreign Assistance Act of 1961.
- ² USAID. (2002). *U.S. National Security Strategy*.
- ³ USAID. (2002). *Foreign Aid in the National Interest*.
- ⁴ USAID. (2005). *Fragile States Strategy*.
- ⁵ USAID. (2006). *A Policy Framework for Bilateral Foreign Aid*.
- ⁶ Office of the Director of Foreign Assistance. (October, 2006). *Foreign Assistance Framework*.
- ⁷ Global Development Alliance website: http://www.usaid.gov/our_work/global_partnerships/gda/
- ⁸ Overseas Private Investment Corporation website: www.opic.gov
- ⁹ World Bank. (2000). *Strategic Framework*.
- ¹⁰ World Bank. (2003). *Reaching the Rural Poor: A Renewed Strategy for Rural Development*.
- ¹¹ World Bank Producer Organization website: <http://lnweb18.worldbank.org/ESSD/ardext.nsf/16ByDocName/ProducerOrganizations>
- ¹² World Bank. (December 2005). *Fragile States: Good Practice in Country Assistance Strategies*.
- ¹³ The International Cooperative Alliance (ICA) website: www.ica.coop
- ¹⁴ The Ohio Cooperative Development Center website: <http://ocdc.osu.edu>
- ¹⁵ ICA website: www.ica.coop
- ¹⁶ Ibid.
- ¹⁷ Rabobank website: www.rabobank.com
- ¹⁸ Lacasse, R. (2003). OCDC/IFAD presentation.
- ¹⁹ Birchall, Johnston. (2004). *Cooperatives and the Millennium Development Goals*. ILO.
- ²⁰ ICMIF members are split between cooperatives (47 percent), mutual (34 percent) and stock companies (19 percent) that share common cooperative movement origins and mutuality. They represent seven percent of the world's premium income and range in size from the third largest to small offices with five employees. Ten companies are over 100 years old.
- ²¹ United Nations. (2005). *Millennium Development Goals*.
- ²² The International Labor Organization (ILO) and The International Cooperative Alliance (ICA). (February, 2004). *Cooperating Out of Poverty: The Global Cooperative Campaign Against Poverty*.
- ²³ United Nations home page: www.un.org
- ²⁴ A recent study undertaken by CHF International in partnership with USAID is examining the economic contributions of cooperative businesses in transformational countries, and has attempted to capture and measure the discrete benefits that cooperative members have received in the Philippines and Mongolia. This report provides a detailed appendix, authored by Dr. Bruce L. Anderson, on common market failures and how cooperatives may help adjust for those failures. A full report, "Cooperative Economic Impact Assessment," will be published in 2007.
- ²⁵ World Bank. (2006). *Re-engaging in Agricultural Water Management: Challenges and Options*.
- ²⁶ Mellor, J. (1999). *Faster More Equitable Growth: The Relation Between Growth In Agriculture and Poverty Reduction*. Harvard Institute for International Development.
- ²⁷ World Bank/LAC. (2005). *Beyond the City: The Rural Contribution to Development*.
- ²⁸ Zeuli, K and Cropp, R. (2004). University of Wisconsin Extension. *Cooperatives: Principles and Practices in the 21st Century*.
- ²⁹ Cooperatives are also classified as local, regional, interregional and national. They may be primary or secondary cooperatives, the latter composed of many primary cooperatives. Cooperatives can be centralized: owned directly by members; federated in which cooperatives own other cooperatives; or hybrids of the two (partially owned directly and owned by cooperatives).
- ³⁰ The largest world representation group is the International Cooperative Agricultural Organization with 47 national apex agricultural organizations: 11 in Africa, 7 in the Americas, 12 in Asia and 17 in Europe. The International Federation of Agricultural Producers has 100 national organizations in 70 countries that represent over 500 million farm families.
- ³¹ NCBA Website: www.ncba.coop. See Zambia Rural Group Business Program.
- ³² Parker, S. (2003). USAID. "CLUSA Zambia Rural Group Business Program" in *Paving the Way Forward for Rural Finance, An International Conference on Best Practices*.
- ³³ Finquillievich, S and Graciela, K. (2004). *Community Democratization of Telecommunications Community Cooperatives in Argentina: The Case of TELPIN*.
- ³⁴ Budde P. (2006). *Bolivia Telecoms Market Overview and Statistics*.
- ³⁵ James, T. (2001). *Telecommunications and Integrated Rural Development in South Africa: Telecommunications Cooperatives as a Mechanism for Supporting Sustainable Economic Development; New Telecommunications Policy Process*.
- ³⁶ Budde, P. (2006). *Communications, Bolivia Telecoms Market Overview and Statistics*.

- ³⁷ http://www.telegeography.com/cu/article.php?article_id=6555
- ³⁸ World Bank website: www.worldbank.org
- ³⁹ On the other hand, municipal electric systems in Bangladesh have losses of about 35 percent.
- ⁴⁰ NRECA. (August, 2003). *Co-operativa Rural de Electrificación*. Cooperative Development Case Study prepared for USAID Cooperative Development Program.
- ⁴¹ A 2003 customer satisfaction survey of Bolivian electricity consumers in the Bolivian cities La Paz, Cochabamba and Santa Cruz by the agency "Equipos Mori" as reported in the July 5, 2003 issue of the Santa Cruz newspaper, El Deber.
- ⁴² WOCCU, (2005). *Credit Union Empowerment and Strengthening, Philippines*, a Cooperative Development Case Study prepared for the USAID Cooperative Development Program.
- ⁴³ Evans, A.C., Grell, S. and Klaehn, J.. *A Technical Guide to Increasing Citizen Participation: How Credit Unions Strengthen Democracy*. Madison, WI: World Council of Credit Unions, Inc. March, 2006, p.10.
- ⁴⁴ WOCCU Technical Services. (December, 2002). *Strengthening Credit Unions*. World Council of Credit Unions.
- ⁴⁵ Evans, A.C. and Klaehn, J. (2003). *A Technical Guide to Mainstreaming: The Credit Union Perspective*.
- ⁴⁶ Evans, A.C., Grell, S. and Klaehn, J.. *A Technical Guide to Increasing Citizen Participation: How Credit Unions Strengthen Democracy*. Madison, WI: World Council of Credit Unions, Inc. March, 2006, p. 14.
- ⁴⁷ Ibid, p. 13.
- ⁴⁸ Hudson Institute. (2006). *The Index of Global Philanthropy*, p. 30.
- ⁴⁹ Evans, A.C. and Klaehn, J. (2005). *FOCUS Guatemala: Credit Unions Provide Unbanked Remittance Receipts with Access to Financial Services*. Madison, WI, World Council of Credit Unions, Inc. June, 2005.
- ⁵⁰ ACDIVOCA. (December and June, 2006). *Cooperative Development Program Reports to USAID*.
- ⁵¹ International Finance Corporation. (2004). *Housing Finance: Increasing the Availability and Affordability of Housing in Developing Countries*.
- ⁵² In the United States, a housing cooperative is sponsored by a development group and the co-owners of the resulting complex jointly own the physical structures through shares in the cooperative. Unlike condominiums, where individuals own specific units and common grounds are managed by a condominium board, a cooperative owns an entire complex and manages it through a democratically elected board of directors or a management firm.
- ⁵³ In 1998 this program in Poland, entitled "Affordable Housing for a New, Democratic Poland: A Market Approach Using Public-Private Partnerships and Nongovernmental Organizations," won the Dubai Award for Excellence in Improving the Living Environment. This program experience is included in the best practices database of the United Nations Center for Human Settlements (Habitat).
- ⁵⁴ Czachorska-Jones, B. (2002). *Assessing The Economic Development Impact of a Housing Program*. Prepared for USAID by CHF International.
- ⁵⁵ Krishna, A. (January, 2004). *World Development Report*. Vol. 32, Issue 1, p. 12.
- ⁵⁶ The Financial Times. (January 26, 2006). Comments on the projected World Development Report 2007.
- ⁵⁷ United Nations. (2005). *Youth in the Global Economy*.
- ⁵⁸ Scullion, J. B. (2005). *Youth: Reinventing Cooperatives. Young Perspectives on the International Co-operative Movement*. Eds. Smith, J; Puga, R.; MacPherson, I. British Columbia Institute for Cooperative Studies: BC Canada, p. 5.
- ⁵⁹ ICA website: www.ica.coop
- ⁶⁰ Ibid.
- ⁶¹ Cooperatives are often present in agricultural, forestry and fisheries settings that are resource-based where they may be able to implement sustainable practices.
- ⁶² Gertler, M. (2001). *Rural Cooperatives and Sustainable Development*. Centre for the Study of Cooperatives, University of Saskatchewan.
- ⁶³ CHF International carried out an extensive two-year study on how to create stable societies including the important roles of cooperatives. See *Stable Society Study: Effects on Conflict Dynamics and Peacekeeping*. (February, 2005).
- ⁶⁴ A study of this type is presented in the highly regarded work of Ashutosh Varshney of the University of Michigan, presented in his recent book *Ethnic Conflict & Civic Life: Hindus & Muslims in India* (Yale University Press, March 2000).
- ⁶⁵ The credit unions have been assisted by the Canadian Cooperative Association and the Ford Foundation.
- ⁶⁶ Sharma, N. (October, 2003). *Poverty, Micro-Finance and Conflict in Nepal*. Presentation at Canadian Cooperative Meeting in Ottawa.
- ⁶⁷ International Cooperative Alliance. (1993). *Policy on Women in Cooperative Development*.
- ⁶⁸ Catalyst Management Services. (November, 2002). *Impact Assessment of the Women's Dairy Cooperative Leadership Program*.

⁶⁹ Professor Hirschman is considered the father of grass-roots development and was a frequently consultant to the InterAmerican Foundation.

⁷⁰ World Bank website:
<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALDEVELOPMENT/EXTSOCIALCAPITAL>

⁷¹ Ibid: Section: What is Social Capital?

⁷² Fontana, M and Yanomy, Y. *Democracy and Civil Society*. 2020 Vision Series: International Food Policy Research Institute, 2001.

⁷³ Barkat, A., et al. (2002). *Economic and Social Impact Evaluation Study of the Rural Electric Program in Bangladesh*.

⁷⁴ Ibid, page 221.

⁷⁵ Data are based on 1,380 survey of members of electric cooperatives.

⁷⁶ Ibid, page 221.

⁷⁷ USAID website: www.usaid.gov.

⁷⁸ Fukuyama, F. (1995). *Trust: The Social Virtues and the Creation of Prosperity*. NY: Free Press.

⁷⁹ Carried out by the World Council of Credit Unions.

⁸⁰ Quote from Adrian Rodriguez Arias, WOCCU Chief of Party.

⁸¹ CHF International. (February, 2005). *Stable Society Study: Effects on Conflict Dynamics and Peacekeeping*.

⁸² Ibid.

⁸³ Weihe, T. (June 4, 2004). *Cooperatives in Conflict and Failed States*. Overseas Cooperative Development Council.

⁸⁴ In Bosnia, associations are not legal companies. Therefore, they are limited in handling the production of members. Cooperatives are legal companies and associations can belong to a cooperative to provide value added marketing services. The vast majority of cooperatives in Bosnia are essentially shareholder companies with no participation in membership from the farm community. The genesis of these cooperatives is that when the economy collapsed in Bosnia, the socially owned (quasi-state) cooperatives collapsed and the municipality acquired their assets. At the end of the war the municipalities were dominated by nationalist parties, which removed the cooperative assets from their books by giving them to political allies and party members. Farmers own the cooperatives that Land O'Lakes is facilitating.

⁸⁵ Carried out by the National Rural Electric Cooperative Association.

⁸⁶ NRECA helped form another cooperative and provided power through an underwater cable to the Meanguera Islands that provides basic services to three islands that had been isolated and awarded to El Salvador by the International Court at The Hague. The cooperative helped

stabilize the islands through refrigeration for its fish catch and increased agricultural production through food processing, mulching grinders and use of electric tools (such as construction of fishing boats). It provided alternative income rather than reliance on smuggling and drug running. The first democratic elections on the islands were those held by the cooperative as a school for democracy. (Ted Weihe, A Final Evaluation of the El Salvador Rural Electrification Project, 1996).

⁸⁷ Productive uses is a term that is used when energizing a village or area to denote those activities such as electric water pumps, carpentry and metal shops, and sewing machines where electricity provides for greater increases in productivity. For example, an electric sewing machine is about 2,000 percent more efficient (time saving) than a peddle operated machine.

⁸⁸ Land O'Lakes project from August 1999 to September 2002, designed to strengthen the dairy sector through cooperative development.

⁸⁹ Only seven producers had more than 10 cows.

⁹⁰ In May 2004, Radosav Rasovic, former Land O'Lakes deputy COP, updated the status of farmer cooperatives with the following leaders: Mijo Bojovic (Orthodox, Montenegrin), Pashko Vuljaj (Catholic, Albanian), Emin Sinanovic (Muslim, Bosnian), Gani Rexha (Muslim, Albanian), Radivoje Markovic (Orthodox, Montenegrin), Vuk Zukovic (Orthodox, Serbian), Dragan Zecevic (Orthodox, Montenegrin), and Branimir Vujacic (Orthodox, Montenegrin).

⁹¹ Weihe, T. (June, 2004). *Cooperatives in Conflict and Failed States*. Overseas Cooperative Development Council.

⁹² Kurien, V. (1997). *An Unfinished Dream*. New Delhi, India: Tata McGraw-Hill Publishing Company, Limited.

⁹³ Land O'Lakes proposal and quarterly reports as well as input from Chief of Party John MacKillop.

⁹⁴ United Nations. (1997). *Cooperative Enterprise in the Health and Social Care Sectors: A Global Survey*. UN Publications Sales No. E.96.IV.11.

⁹⁵ United Nations. (1996). *Cooperative Enterprises in Health and Social Care*. Review of International Cooperation, Vol. 89, No 1, pp. 76-81.

⁹⁶ When asked to describe their role, local co-op leaders often used the term "link." For instance, "I am the link between the national co-op people and our local members and the doctor. When our members have problems with the doctor, they come to me and ask me to speak for them."

⁹⁷ Currently, UHC is supported by a modest \$120,000 annual grant by Health Partners provided through Land O'Lakes. The project was initiated as a means to help dairy cooperatives in which farmers would have to sell their cows because of family health care needs. The

largest group plan is with a large tea cooperative.

⁹⁸ Centre for Development and Population Services. (January, 2003). *Linking with Dairy Cooperatives for Large-Scale Community-Based Service Delivery*.

⁹⁹ *Cooperative Enterprises in Health and Social Care*. (1996). In: Review of International Cooperation, Vol. 89, No 1, pp. 76-81.

¹⁰⁰ ICA website: www.ica.coop

¹⁰¹ UNAIDS. (2006). *Report of the Global AIDS Epidemic*.

¹⁰² Cooperative College, Manchester England. (2004). *Promoting Cooperatives: A Guide to ILO Recommendation 193*.

¹⁰³ For more information, see Flynn, Sean, Esq. "A Short History of Cooperative Law and Regulation Reform in Developing Countries," in *Enabling Cooperative Development: Principles for Legal Reform*, prepared by the Cooperative Law and Regulation Initiative on behalf of the US Agency for International Development. (2006). www.ocdc.coop/clarity/default.htm.

¹⁰⁴ NCBA. (January 21, 2004). Cooperative Development Program Application, USAID/PVC.

¹⁰⁵ USAID/OCDC. (2006). *Enabling Cooperative Development: Principles for Legal Reform*.

¹⁰⁶ ACDI/VOCA. (2004). *Brazilian Cooperativism: The Conquest of Autonomy*. Case Study Completed for the CDP Program, USAID.

¹⁰⁷ World Council of Credit Unions. (2000). *Model Law for Credit Unions*.

¹⁰⁸ WOCCU Technical Services. (2002). *Strengthening Credit Unions*.

¹⁰⁹ Unlike in the U.S. where shared rates are determined by sunken costs of equipment to transmit telephone messages, the agreements in Poland allow the state monopoly (long distance carrier) to gain revenues from incoming calls, and the cooperatives from outgoing costs.

¹¹⁰ Thompson, R. (October, 2006). *Globalization: Benefits and Causes*. *Illinois Ag Policy Brief*. Department of Agricultural and Consumer Economics. University of Illinois at Urbana-Champaign.

¹¹¹ Redfern, A. et al. (2002). *Creating Market Opportunities for Small Enterprises: Experiences of the Fair Trade Movement*. SEED Working Paper No. 30. International Labor Office.

¹¹² Ford Foundation. (2002). *Sustainable Solutions: Using Markets to Build Natural Assets and Financial Assets*.

¹¹³ Weihe, T. (January 21, 2005). *Cooperative Fair Trade Coffee: The U.S. Experience*. COPAC Conference on Fair Trade, Berlin.

¹¹⁴ Specialty Coffee Association of America website: www.scaa.org (press resources).

¹¹⁵ Specialty Coffee Association of America. (2003).

¹¹⁶ Walton, J., Senior Vice President for the Middle East and North Africa, ACDI/VOCA. (2006). Presentation on Capitol Hill for the Partnership to Cut Hunger and Poverty in Africa.

¹¹⁷ USAID. (1996). *Rebuilding Postwar Rwanda, The Role of the International Community: Support to the Economic Sector*. Special Study No. 76.

¹¹⁸ Government of Rwanda. (June 16, 2003). *The Rwanda Poverty Reduction Strategy Paper*.

¹¹⁹ De Lucco, Paul. ACDI/VOCA Chief of Party, Rwanda.

¹²⁰ Project carried out by ACDI-VOCA.

¹²¹ Grants are made to cooperatives to bring more value added to agriculture and, where possible, grants are coordinated with bank loans to develop their credit worthiness.

¹²² The project also assisted the "Co-opérative pour la promotion de la culture du riz dans le District de Bugarama" to purchase fertilizer in conjunction with a loan from the Rwanda Development Bank. The cooperative has not missed a payment for the \$90,000 loan and has established a reliable credit rating.

¹²³ De Lucco, P. and Berkey, S. (Spring, 2004) *ACDI/VOCA World Report*. Rwanda's Recovery: Building Strong Business-Oriented Cooperatives.

¹²⁴ WOCCU. (December, 2003). *A Technical Guide to Rural Finance, Exploring Products*. WOCCU Technical Guide #3.

¹²⁵ The official poverty line was based on a daily per person intake of 2,100 calories and the equivalent of \$156 annually for urban residents and \$8.50 for rural inhabitants. East Timor's rate of 36.2 percent of the population living below the poverty line ranked it below the country's other rural populations, such as West Kalimantan at 25 percent, and Irian Jaya at 24 percent.

¹²⁶ Conducted by the National Cooperative Business Association (NCBA), formed in 1917, an organization comprised of diverse types of cooperatives.

¹²⁷ NCBA has assisted in the development of a variety of types of cooperatives, including for vanilla production, processing and export, consumer goods distribution, coffee shade tree production and the production of host trees for the vanilla plants.

¹²⁸ The coffee cooperatives include *Co-operativa Café Timor* (CCT) – the national level federation – sixteen local cooperatives, *Co-operativas Café Organico* (CCOs), and nearly 500 organized farmer groups.

¹²⁹ Many of the farm families had remaining stocks of coffee that they had not been able to sell during the coffee harvest season and the project was able to provide them with urgently needed cash by re-starting its purchasing activities. This injected the equivalent of several million in U.S. dollars into the rural economy and helped make it possible for the farmers to rebuild their homes and lives and survive without being dependent on relief.

¹³⁰ As one example, the project procured food supplies and building materials in West Timor and sold them in the local East Timor markets at current Indonesian prices, which were considerably lower than the prevailing inflationary prices.

¹³¹ In 2002, coffee prices at below 50 cents/lb. hit the lowest levels since 1975. Specialty and organic coffees command a premium at about 15.65 cents per kilo to the average cooperative member.

¹³² NCBA. (2003). *www.coopdevelopmentcenter.co-op: Coffee Cooperatives of East Timor.*

¹³³ In 2003, the cooperatives were operating eight fixed health care clinics and 24 mobile clinics in five districts serving 90,000 clients (2002), known as Clinic Café Timor. Managed entirely by Timorese, the program participates in national efforts on nutrition and child health, immunizations, malaria and tuberculosis detection and prevention. East Timor Project Profile, NCBA Website: www.ncba.coop.

¹³⁴ Assefa, T. (2003). *Revitalizing Market-Oriented Agricultural Cooperatives in Ethiopia*. Case Study completed for ACDI/VOCA under the Cooperative Development Program, USAID.

¹³⁵ Likewise, credit unions continue to grow in Ethiopia from 15 in 1972 with 5,446 members to 779 with 156,088 members in 1998, and assets from \$113,551 to \$31 million over the same period (WOCCU statistics).

¹³⁶ Nadeau, E.G. and Novoa, M.J. (2004). *Mid-Term Evaluation of CLUSA's Rural Group Enterprise Development Program in Mozambique.*

¹³⁷ NCBA. (2001). *Mozambique Rural Enterprise Development Program*. Final Report, September 1995-October 2001.

¹³⁸ Project implemented by NRECA.

¹³⁹ The government's Department of Cooperatives operates

under the State Ministry of Cooperatives and Small and Medium Enterprises.

¹⁴⁰ The vanilla was traditionally harvested immature, hastily processed and sold as a low quality product useful only for blending with higher qualities. The exported vanilla beans were sold at price levels up to 86% lower than the market standard "Bourbon" beans produced in Madagascar and the Comoros Islands.

¹⁴¹ See *Analysis of U.S. Cooperative Experience and Cooperative Development Framework* at: www.coopdevelopmentcenter.coop.

¹⁴² The Rochdale pioneers were the first successful consumer cooperative as distinct from rural agricultural and credit cooperatives. Consumer cooperatives are much more prevalent in Europe than the U.S. REI recreational stores are an example of a successful U.S. consumer cooperative.

¹⁴³ See history of the Pellervo cooperative movement. Social Capital: Inweb18.worldbank.org/ESSD/sdvext.nsf/61ByDocName/ReourcesonSocialAnalysisGlossaryofKeyTerms



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