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The Role of Co-operatives in Poverty Reduction: Network Perspectives

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Abstract

Newly emerging nations in the developing world put great efforts into developing multi-purpose co-operative societies that, it was hoped, would bring the benefits of development to the rural poor. With some exceptions, these failed to live up to expectations; having been created by governments they remained controlled by the interests of government, party and civil service. Then, under structural adjustment programmes they either collapsed or were reformed. Some new, more genuine co-operative sectors are now emerging. As they do, co-operatives face new challenges brought about by continuing processes of economic globalisation, the IT revolution, and changes in the national and international balance of powers. To survive and thrive, the ability for co-operative organisations to network effectively at both the local level and beyond is becoming increasingly important.

This working paper seeks to examine the relevance of the numerous theoretical perspectives on network formation and network management to the newly-emerging co-operative sectors in the developing world. Such networks are being built both within the co-operative sector itself (e.g. through federation) and with a range of other bodies, both locally, nationally and internationally. The paper seeks to provide a framework for understanding the processes that drive the formation of relationships, networks and partnerships, and asks questions of how such alliances can be governed and managed effectively.

Introduction

The history of co-operatives provides evidence of both success and failure in poverty reduction. However, it is difficult to sum up the strengths and weaknesses of co-operative sectors, as these vary dramatically between types, between countries, and over time. A four-fold distinction is useful, between the more economically developed countries (MEDCs), the ex-communist countries, transitional countries and less economically developed countries (LEDs).

In the MEDCs, co-operatives began, from the mid-nineteenth century onwards, as a means by which working class people could raise themselves out of poverty, but later they became a means by which low and middle-income people could continue to accumulate economic advantages. Sometimes this meant poor people were excluded, while at other times the open membership principle meant that the poor did benefit, but certainly not as part of a planned design. In the MEDCs, co-operative sectors have always been autonomous and free of government control. They follow the 'Rochdale principles', established by the Rochdale Pioneers in 1844, of one member one vote and distribution of surpluses through a patronage refund (Birchall, 1994). Their fortunes have waxed and waned according to the extent of competition within each business sector, the quality of their management, and how well they have met the needs of their members. In contrast, in the communist countries, from the 1920s onwards free co-operatives were abolished or taken over by the state, and the word 'co-operative', while still used extensively, was emptied of meaning. In the 1990s, in the transition to a market economy of the former communist states many co-operatives were privatised or collapsed. However, with the help of the ICA and its member organisations, some have recently been 'returned' to their members. There is a growing realisation that 'real' co-operatives, as member-owned businesses, have much to offer to farmers, consumers and worker-owners (Couture et al, 2002). In the transitional economies, co-operatives have been a vital part of their success stories; agricultural co-operatives in Brazil and South Korea, consumer co-

operatives in Malaysia and Singapore, co-operative banking and insurance more or less everywhere. In Argentina recently, while co-operative banks collapsed under the strain of an imploding economy, there was a resurgence of worker co-operative takeovers, showing that the co-operative form is still very much a live alternative to the capitalist joint stock company.

In the less economically developed countries (LEDCs), from the 1950s onwards co-operatives were promoted by nationalist governments as a way of modernising traditional economies (Birchall, 1997). However, the planned use of co-operatives for economic development tended to distort their character, creating vested interests among politicians, civil servants and political parties. By the 1970s it was beginning to be recognised that, because of their undemocratic and 'parastatal' character, their potential had not been realised (Laidlaw, 1978). Where they were successful, they tended to benefit the rural elites rather than the poor. There were notable success stories, such as dairy co-operatives in India and coffee co-operatives in Africa, but in general members were not allowed to control their own co-operatives and saw them as quasi-governmental agencies that provided useful services but did not belong to them (Develtere, 1994). Some genuine movements did emerge, particularly in co-operative savings and credit; in the Caribbean and in Africa 'modern' credit unions were able to build on traditional, informal types of co-operation (ILO, 1993). Also, Latin America had a genuine 'co-operative movement' begun by exiles from Italian and Spanish fascism. But, in general, co-operatives often benefited middle-income people rather than the poor, they were male-dominated and badly managed (Munkner, 1976; Laidlaw, 1978). Moreover, they were propped up by government patronage, and so in the period of structural adjustment that followed the ending of the cold war many of them collapsed and their apex federations were wound up.

Since then, macro-economic policies creating real markets, and legal reforms giving real autonomy, have enabled co-operatives to realise some of their latent potential, and they have been shown to be capable of reaching the very poorest (Munkner, 1995; Rajagopalan, 2003), particularly when used as a vehicle for poverty reduction by NGOs using participatory development

methods. Most LEDCs still have extensive co-operative sectors with, at least on paper, thousands of societies and millions of members (the Indian sector claims a membership of 239 millions). Some sectors that survived the retrenchment brought about by structural adjustment programmes are still weak as business organisations. Yet co-operatives remain an indispensable means of delivering necessary goods and services to isolated rural populations. Those that survive are gradually freeing themselves from government control, becoming more market-oriented and member-focused (Rajagopalan, 2003). They are able to appeal to a recent reworking of co-operative principles by the International Co-operative Alliance (ICA), to an ILO Recommendation (ILO, 2000), and to new co-operative laws passed in most of Africa, Asia and Eastern Europe. The question then arises: what exactly is their potential for reducing poverty?

The Role and Potential of Co-operatives in Poverty Reduction

Birchall (2003; 2004) developed six arguments for the potential of co-operatives in poverty reduction. These arguments have subsequently been made more systematic and subjected to some initial criticism (Birchall & Simmons, 2006a):

Argument 1. That cooperative values and principles provide built-in advantages for poverty reduction

This is a theoretical argument derived from the nature of co-operatives as member-owned businesses. In general, because they are not just non-governmental organisations (NGOs) or civil society organisations but are essentially economic associations, we should expect co-operatives to be able to raise the incomes of their members. If at least some of their members are poor, then they will, as a by-product of economic activity, achieve a reduction in poverty. More specifically, when we look at co-operative principles we can derive more subtle arguments. The principles of voluntary and open membership means they should be open to the poor. The return of surpluses to members on the basis of the use they make of it means they can deliver the UN's elusive aim of 'growth with equity'. The principles concerning equal voting rights and limited return on capital mean they subordinate capital to people, and so give equal rights to poor and less poor members. In sum, they are designed to be 'ethical businesses', and so have advantages over other types of business organisation. However, they cannot guarantee to reduce poverty because their primary purpose is to meet the needs of their members. Where their members are poor, or poor people are among the members, they will do so. Also, we cannot just assume that all co-operatives put the principles into practice; the attempt to get co-operatives to live up to their values and principles is itself an ongoing task, and one that can never really be taken for granted (Birchall, 2005).

Argument 2. That the history of co-operatives in developed countries shows great achievements in poverty reduction

We know without doubt that the early co-operative movement in Britain was led by poor people. However, they were poor because the economy was going through the enormous changes of an industrial revolution, not because they lacked skills or entrepreneurial drive. They were rich in human and social capital and were aided by dedicated middle class supporters and politicians who, when they needed it, secured a favourable legal system. The movement took several different forms, including not just the familiar consumer, worker, agricultural, housing, credit co-operatives but also mutual health and unemployment insurance through friendly societies. Together, co-operatives, mutuals, associations, trade unions, raised whole classes of people out of poverty and then stopped them sliding back into it. The coverage of the friendly societies was biased towards people in steady employment, and the consumer co-operatives towards those who did not need credit. However, though they were good at helping the episodically poor, they only occasionally helped the chronically poor.

A similar story can be told of co-operative and mutual movements as they spread to the rest of Europe (Birchall, 1997). In industrial areas, consumer co-operatives were an outstanding success in cutting the cost of living for working class people. In rural areas, agricultural co-operatives and co-operative banks (on the Raiffeisen model) secured a livelihood for a whole class of farmers, while the urban banks (on the Schulze-Delitsch model) supported skilled workers and small businesses. Then, after the Second World War, consumer and agricultural co-operatives played a key part in the reconstruction of the German and Japanese economies. As welfare states began to be created in Western Europe, the mutuals entered into partnerships with governments to deliver health and social insurance. In continental Europe (though not in Britain, where the government chose to take complete control) they are still heavily involved with health insurance, provision of health care, and social insurance.

The current situation in developed countries is very positive; we can point to the rapid growth of co-operative health and social care sectors, the key role of credit unions in local economic development, and the involvement of a variety of different types of co-operative in areas of social exclusion such as public sector housing estates. Case studies as diverse as housing co-operatives in New York, labour co-operatives in Finland, women's agro-tourism co-operatives in Greece, and consumer co-operatives in Russia confirm that co-operatives are still potent in reducing poverty (Birchall, 2003 Ch.4).

Argument 3. That even though there have been failures in co-operatives in developing countries these do not indicate weaknesses in the co-operative model.

This is a more difficult argument to make. Despite enormous resources being poured into the development of co-operatives over long periods of time, by colonial and then nationalist governments, the effort was mainly a failure. To rescue the reputation of co-operatives, we have to make these points:

- a. The 'top-down' nature of the development meant that co-operatives were never really autonomous associations, owned and controlled by their members, and so were not co-operatives but state enterprises by another name.
- b. The large scale of co-operative promotion led to vested interests being created; as Laidlaw said in the 1970s, they had three masters: the government, the civil service and political parties (Laidlaw, 1978).
- c. The resources that were put into co-operative development were often appropriated at the local level by existing elites, so that they benefited the middle income people rather than the poor
- d. There have been notable success stories: for example dairy co-operatives in India and Bangladesh, coffee co-operatives in Kenya, and credit co-operatives almost everywhere have a good record in reducing poverty. This is partly because they have been 'real' co-operatives, practicing the co-operative principles. However, more needs to be done to identify and learn from these success stories.

- e. Some of those co-operative sectors that were promoted under conditions of state control have the potential to be reformed and strengthened. They have extensive village-level networks that could be built on. New co-operative laws have been passed in some countries guaranteeing them the autonomy they need. The attitude of governments is changing. Structural adjustment programmes have weakened some of the vested interests that keep co-operatives subservient.

Argument 4. That the essential nature of the cooperative form of organisation is now much clearer

In the past, discussions about the potential of co-operatives in poverty reduction were clouded by uncertainty about what people were talking about. Co-operatives were unfairly criticised for not creating greater equality in society, when this is not one of their principles. Their potential for creating growth with equity was overlooked. So what exactly is a co-operative? Thanks to the ICA's identity statement, values and principles, the UN's Guidelines on the Promotion of Co-operatives, and the ILO's Recommendation 193 there is now much more clarity on the subject. The work of these international agencies has enabled new laws to be passed in many countries, guaranteeing the autonomy of co-operatives. All of this has made it easier to defend and promote the co-operative form of business, while making clearer the need to allow co-operatives to fulfil their potential in their own way.

On the other hand, this work has only just begun. Passing laws is not enough to guarantee that government bureaucracies and political parties will allow co-operatives the freedom they need. In some countries there is still much political resistance to allowing the movement greater freedom. Also, in order for co-operative leaders to reform their existing co-operatives or start new ones, they need to know about the new laws, and in some countries there is still a great deal of ignorance of these opportunities.

Argument 5. That participatory development and cooperative development share the same underlying principles

There are great similarities between the participatory development process as it is currently understood, and the process of setting up sustainable co-operative businesses. For development NGOs, co-operatives have particular advantages. Compared with village-based organisations in which all residents have membership, co-operatives more effectively organise particular interests, such as farmers or fishers. They seem to be better at preserving common pool resources (such as water for irrigation, forest products, or fish stocks) than are broader-based organisations. They are more likely to be sustainable after NGOs finish their projects and development funding is spent.

Argument 6. That the UN's Millennium Development Goals and the poverty reduction strategy of the World Bank need co-operative development if they are to succeed

The role and potential of co-operatives have recently started to come to the fore again in discussions about poverty reduction. However, the poor performance of co-operative sectors in the past has led World Bank officials to avoid the use of the term; in the voluminous literature on poverty reduction they prefer to talk vaguely of 'self-help groups' and 'farmer associations'. In contrast, the United Nations (UN) continues to support co-operatives, though in its detailed work on poverty reduction the co-operative form again tends to be overlooked.

The UN cannot achieve the Millennium Development Goals (MDGs) without a massive effort in participatory development through co-operatives or similar self-help organisations. Case studies have illustrated how co-operatives contribute not just to poverty reduction but to meeting several more of the MDGs (Birchall, 2004). Some of the MDGs and their specific goals and targets are relevant to the work of co-operatives but some of them obviously are not so relevant, and it would be a mistake to burden the co-operative form with too high an expectation of the range of impacts that can be achieved. Birchall (2004) constructed 10 cases out of recent projects and programmes

generally considered to have been successful and noted any evidence that is available relating to the MDGs. The results are surprising; co-operatives contributed to far more of the goals than was originally expected.

There are strong arguments that the World Bank cannot achieve its Poverty Reduction Strategies without harnessing the potential of co-operatives, that its aims of opportunity, empowerment, and security can all be achieved through co-operatives, and that it cannot do without engaging with co-operatives, if it is serious about involving organisations of the poor in the Poverty Reduction Strategy Process (PRSP). After all, what other organisations of the poor are there? There is also a strong argument that UN agencies need to recognise the potential of particular types of co-operative: the Food and Agriculture Organisation (FAO) needs agricultural coops to ensure inputs and marketing for farmers struggling to connect up with the market economy. The ILO needs worker co-operatives, and good employers among the other types of co-operative, to help in its decent work strategy.

Taking a Network Perspective

Within each of the above arguments, network perspectives provide an important frame of reference. First, in terms of co-operative values and principles, the very nature of co-operatives as economic associations emphasises the 'connectedness' between co-operatives and their members. A co-operative can therefore provide a hub for organising particular local economic interests and/or for protecting common pool resources. Furthermore, the established principle of 'co-operation amongst co-operatives' provides the means for these interests to 'scale up' by building more extensive networks; the Mondragon system in Spain, and clusters of small manufacturing co-operatives in North Italy are good examples. The common practice of federation also provides a means by which networks of co-operative organisations can be established and their interests represented collectively. For instance, consumer co-operative sectors have almost always formed strong federal bodies at national level, both to enable them to do better business further up the distribution chain (Co-operative wholesale societies being the classic example) and in order to defend their interests politically (through national federations) (see Birchall, 1994).

Second, in terms of the lessons from history, we find a rich tradition of human and social capital (of both bonding and bridging types) in areas of co-operative development. These resources have been recognised in the co-operative principle of education by which societies have put aside some of their surpluses to educate and train their members. The resulting social capital provides vital support for the formation and development of networks. Traditionally, co-operative sectors have also built networks with various elites, for example enlisting support from middle-class benefactors and politicians. This has often been an important factor in their development. For instance, in Britain during the second half of the nineteenth century the co-operative sector was supported by liberal politicians who gained important changes in the law, thus allowing the movement to grow. In Japan, in the postwar period the support of politicians has been important for the extensive development of

farmer and fisher co-operatives. Such networks, when they work well, seem to have the ability to harness political resources without infringing the principle of co-operative autonomy.

Third, many of the sources of previous failures of co-operatives lie in the difficulties they have experienced in terms of their relationships with others. Where 'co-operatives' have been the creature of top-down government policies, there have often been misjudgements over the capacity of such organisations to form and develop sustainable local networks of members. Conversely, where existing co-operatives have formed partnerships with government, for example in health and social insurance or in the combating of social exclusion, there have sometimes been problems across cultural boundaries as network partners have failed to grasp the 'essential nature' of co-operatives. In particular, in Britain local government officers and politicians have often been unable to understand that co-operatives distribute some of their surpluses to members in patronage refund. There is a widespread misconception that co-operatives are part of the 'non-profit' sector, working for the benefit of the wider community rather than for their members. On the other hand, co-operatives have had a struggle to be seen as social enterprises, rather than just part of the 'private sector'.

Fourth, as this essential nature is made clearer through new laws and policies at national and international level and co-operatives gain greater levels of autonomy, the ability for co-operatives to build new relationships and networks with a range of partners increases. For instance, there has been a dramatic growth in fair trade between northern and southern co-operatives. As experience shows, however, autonomy is a double-edged sword - at once empowering and stressful. Sometimes breaking free from the constraints that had previously held them back unleashes co-operatives' entrepreneurial potential. For instance, new farmer associations are growing in countries as different as Vietnam, India and Bosnia. Almost everywhere in the LEDCs micro-credit is being promoted vigorously by NGOs and donor agencies, and often this process leads to large, successful new credit co-operative sectors: SANASA Development Bank in Sri Lanka is a good example. However, there

may be instead a negative sense that they are being cut adrift and left isolated. Many co-operative sectors in Africa have felt this, particularly when their national federations have collapsed through withdrawal of government funding. This may lead co-operatives to draw more heavily on their reserves of 'bonding' social capital that result from their internally 'strong ties' than on the bridging resources that enable them build wider networks. We have seen this happen before, for instance in the formerly strong consumer co-operative movements of Western Europe during the 1960s and 1970s. Here, parochialism among small co-operative societies whose members refused to sanction merger with others led to economic marginalisation and decline (Brazda and Schediwy, 1989).

In terms of their relationships with the state, difficulties may also arise as both parties adjust to co-operatives' new-found autonomy. In practice, often the two parties remain locked together. For instance, the officially sponsored co-operative sectors of Sri Lanka, Indonesia and Vietnam are still largely government or party controlled. In the new context of autonomy, state departments and agencies must be prepared to 'let go' of a degree of control. Where they are unwilling to do so, new co-operative sectors are beginning to emerge in parallel with the old; India and Sri Lanka show good examples of this kind of dual sector development (Rajagopalan, 2003; Fischer et al, 1999). However, co-operatives' continuing relationships with government mean it would not be sensible to sever their remaining ties either. Networking benefits therefore accrue from the need to adjust together to the new realities and relationships that are being established.

Finally, the international context of the field of poverty reduction provides another level for the application of network perspectives. Hence, global organisations such as the UN and World Bank need to find ways to work at the local level, while it may also benefit co-operatives at the local level to find ways of connecting up with the strategies, initiatives and funding streams initiated by such bodies (see Birchall, 2004). Moreover, co-operatives face new challenges brought about by continuing processes of economic globalisation, the IT revolution, and changes in the national and international

balance of powers. To survive and thrive, the ability for co-operative organisations to network effectively at both the local level and beyond is therefore becoming increasingly important. There are some effective international co-operative agencies; for instance the International Co-operative Alliance represents co-operatives in general, while the World Council of Credit Unions and the International Mutual and Co-operative Insurance Federation represent particular types of co-operatives. However, these international federations are limited in scope and need strengthening. Also, there are around 40 international development agencies based in co-operative sectors in the North, and these need to become better focused; some have tended to lose their distinctive edge as *co-operative* development agencies (Birchall, 2004). While co-operatives are quite well networked at the political level internationally, what is missing is a successful international co-operative *business* network. Scandinavian consumer co-operatives have achieved this to a limited degree with Norcoop, and the International Cooperative and Mutual Insurance Federation (ICMIF) does useful business in re-insurance. Attempts to create an international consumer co-operative have failed, and cross-national collaboration has tended to leave national level societies intact (though the Eroski chain in Spain is now expanding into France). However, the most effective business networks are still at the national level; New Zealand's farmer co-operatives, Singapore's consumer co-operatives, Korea's fishing co-operatives, are just some examples of strong nationally-networked businesses.

The argument concerning the advantages of networks has been made more widely for development NGOs. Indeed, Biggs & Neame (1995) go as far as to suggest that the so-called comparative advantage of NGOs is a myth, because it is dependent more on their ability to network than on inherent advantages they may have as individual organisations:

“the major achievements of NGOs come through operating as partners in formal and informal networks and coalitions involving other NGOs, government agencies, and the private sector” (Biggs & Neame, 1995: 39).

When it comes to the role of co-operatives in poverty reduction, network perspectives can therefore be applied at a number of levels - from global to local. Co-operatives generally represent networks of interests at the local level, need to network with various elites at the local level and beyond, in particular need to maintain effective links with the state, and may benefit from engaging with global organisations and processes. All of this means it is vital to understand the means by which networking succeeds. The autonomy of co-operatives is clearly important in their ongoing effort to serve the interests of their members. However, equally important is their ability to network.

Theoretical Perspectives on Networks

It is often hard knowing where to start with 'network theory', as so many different theories across so many different academic disciplines lay claim to the study of networks, and each theory has its own utility. In this paper we do not attempt to review individual theoretical approaches¹, instead seeking to define some of the different aspects of networks to which theory can and has been applied. At one level, the study of networks is descriptive, considering their structure, content, purpose, functions, and institutional characteristics (6, 2004; 6 et al, 2006).

First, in terms of *structure*, 6 (2004; 6 et al, 2006) points out that studies take in the degree of centralisation of the network; its density; the strength of ties between network members; the 'structural equivalence' of different members; the existence of clusters/cliques within the network; and the extent of brokerage. In the LEDCs that we are currently studying, national networks of co-operatives may be more or less centralised, for example around a national federation or state ministry. For instance, in Sri Lanka the credit union federation SANASA is a member of the apex body, the National Co-operative Council, but is very independent and has its own extensive networks both at local level and with international aid networks. The National Co-operative Council, on the other hand, acts more as a channel for top-down decision-making by the government's Co-operative Ministry, and has very few resources of its own. Similarly, some state ministries are very directive about what co-operatives can and cannot do; in Sri Lanka permission is required from the regional co-operative department for co-operatives to sign cheques above a trivial amount. Others, such as the Tanzanian government department, are becoming less prescriptive and more prepared to 'let go'.

Networks may also be more or less dense depending on the extent of co-operative development and the extent to which co-operatives are able and willing to join such networks. Many developing co-operatives will go through a 'pre-co-operative' stage where they are not formally registered. This may

preclude them from participation in some formal networks, although informally they may benefit in their development from networks of co-operative support in terms of advice, shared experience and even finance. Network ties may be weak or strong, depending on a range of factors including the level of activity and commitment that exists between network members. For example, some African coffee growers' unions - representing as many as 100 primary co-operatives - have strong ties, facilitating democratic decision-making on the distribution of market premiums to individual co-operatives and their farmer-members, or to communal facilities such as schools. Nevertheless, the opposite can also be the case, particularly where strong 'bonding' social capital between members at the level of the primary co-operative makes them insular and less trusting of those with which they have weaker ties. For example, in Cameroon Sy (2005) observes that for civil society organisations including co-operatives:

"Networking, which is very important due to the possibility of exchange of information and synergy, is not very prevalent. Organizations mistrust each other and are not willing to share information and ideas. They rarely cooperate with each other."

Network members may also be more or less equivalent. This may have effects upon the relationships between, for example, co-operatives of different sizes and structures,

In the UK, when in the late 1980s the Co-operative Wholesale Society began to pick up ailing retail societies and itself became a large retailer, tensions began to emerge with its member organisations about CWS 'dominance'. Similarly, in Norway the Oslo co-operative society has been felt to be too dominant because of its sheer size. Because of economic weakness, federations of small co-operatives can sometimes 'collapse into' one large firm (Johnstad, 1995), as happened in several European countries during the period from 1950 to 1970 (Brazda and Schediwy, 1989). The collapse may lead to one national society, such as Co-op Austria, or to the dominance of a large society, as in the UK with the Co-operative Group.

A lack of equivalence may also affect relationships between co-operative sectors and the state. For example, in some developing countries it has been hard for apex co-operative organisations to make their voices heard in poverty reduction networks that are led by the state apparatus. Clusters and cliques may form at the core or periphery of the network that make a difference to the way the network operates. Finally, there may or may not be effective 'brokerage'. This depends on the ability of key boundary-spanning individuals to bring different parties together, transferring knowledge, ideas, and understanding from one group to another. A key co-operative principle is co-operation between co-operatives. However, as we have suggested, this is not always straightforwardly feasible in developing countries. Here, much can often be achieved in this 'broker' role by co-operative development agencies such as the Canadian Co-operative Association and the Swedish Co-operative Centre.

Second, in terms of *content*, 6 (2004; 6 et al, 2006) points out that studies take in the nature of what is passed along network ties. Network ties are essential conduits for different types of resources, whether tangible (e.g. money, information) or intangible (e.g. authority, emotional support). For example, in his paper entitled *The Role of Co-operatives and Other Self-help Organisations in Crisis Resolution and Social Economy Recovery*, Parnell (2001) suggests that certain 'drivers' need to be in place to secure successful co-operative development. These include:

- Provision of accessible information on co-operative enterprise
- Availability of competent mentors to assist with recruitment, training and development
- Access to sympathetic sources of finance
- A positive public policy framework

At different times and in different contexts, the needs of members of networks will change, and the types of resources that are exchanged between them will become more or less valuable to them. Empirically, consideration of what is passed along network ties can also include 'multiplexity' (or the transmission

by single network members of more than one type of resource along their ties with others in the network) and 'symmetricality' (the extent to which there is equal exchange of resources between network members).

Third, in terms of *purpose*, 6 (2004; 6 et al, 2006) points out that studies take in whether networks' *raison d'être* is (i) resource-based/instrumental, or (ii) concerned with the development of collective meaning and learning. In the former, cybernetic understandings of organisational processes are brought to the fore, with an emphasis on managerial action to optimise the specific inputs and outputs to be secured. An example of such instrumental action would be an agricultural marketing co-operative whose main aim is to secure higher prices for the produce of individual growers, so helping to raise their incomes and help them out of poverty. In the latter understanding, the emphasis is instead on the pursuit of shared meaning as key to collective capability, and a shared learning perspective of how performance is elicited. This is a role in which co-operative apex organisations and co-operative development agencies are more comfortable. As 6 (2004: 151) observes in relation to networks generally, however:

"We should not have to choose once and for all between these views...A central challenge for theory is to integrate the two in ways that show both the scope and the limitations of both instrumental and narrative practices and understandings"

The majority of co-operatives and co-operative networks will have an instrumental focus to their activity. However, the expression of solidarity and the development of shared meanings are also widely recognised to be important to the successful achievement of their objectives.

Fourth, in terms of *functions*, 6 (2004; 6 et al, 2006) points out that the study of networks takes in the degree to which common tasks can be and actually are undertaken by network members. This depends on a number of factors, including the congruence between network members' goals and activities and the way that power is used. Members' goals can be:

- *Structural*: attempting to create circumstances that either facilitate or constrain the participation of others. Co-operatives (with their open membership criteria) are an example of the former; cartels of the latter
- *Instrumental*: focusing on the resources (inputs and outputs) to be secured from other network members
- *Relational*: creating relationships that are sustainable over the longer term
- *Narrative*: focusing on processes of shared sense-making that mark out different network members' roots, ideas, worldviews, remembered histories and anticipated futures

Congruence/incongruence between these goals may provide either synergies or a source of tensions between network members. The same can be said if network partners are simultaneously focused on different types of network activities. For 6 (2004; 6 et al, 2006), these activities include:

- *Initiation*: selecting and recruiting network participants
- *Objective negotiation*: agreeing on the aims, objectives, norms, values and goals of the network
- *Design*: making rules, designing structures and agreeing procedures for conflict management between network partners
- *Environment management*: securing resources, legitimacy and acceptance from key stakeholders
- *Joint production*: collaborating in the production of goods/services/knowledge
- *Adjustment*: making changes in the course of the life of the network
- *Termination/Transfer*: taking action to terminate, dissolve or transmogrify the network

Hence, there may be instances where some members of poverty reduction networks are focused on joint production, while others still feel that they are at the stage of objective negotiation. This can be the case where states are attempting to use co-operatives as a tool for economic development, rather than involving them as partners in the planning and implementation of poverty

reduction strategies. The ability to influence how networks function is therefore an important factor. Empirical analysis here can illuminate the ways in which network members often have differential access to the various instruments of power in networks. For 6 (2004; 6 et al, 2006), these include:

- *Control*: direct authority, mandation, prohibition, permission. This involves 'commanding' other network members
- *Inducement*: incentivisation, pricing, compensation, contracting, purchase. This involves incentivising other network members on the basis of supply and demand
- *Suasion*: use of information, appeals to norms, values, arguments, ideas, identifications, traditions, standards, expertise. This involves persuading other network members by appeals to commonly-held principles, backed by 'the facts'
- *Coping*: a variety of short-term adaptations to circumstances. This involves opportunistic behaviour to secure survival in situations where the above instruments are unavailable or ineffective because other network members have a greater capacity to exercise them

Finally, in terms of *institutional characteristics*, 6 (2004; 6 et al, 2006) observes that network studies take in the degree to which structure, content and functions are prescribed and/or shaped by either formal or informal rules, norms, expectations and so on; and the nature of those prescriptions. This kind of analysis benefits from taking a time-based perspective, considering how the 'weight of the past' combines with 'forces of the present' and the 'shadow of the future' (6, 2004: 81). The 'weight of the past' is felt in such factors as regulatory systems, institutional characteristics, network structures, and prior experience. This is often a powerful set of factors to take into account in developing countries. As we have noted, the history of co-operative development in many such countries is one where their top-down implementation as state-owned enterprises has emptied the term 'co-operative' of its substantive meaning. As co-operatives achieve greater autonomy through legal and macro-economic reforms, they may nevertheless be hindered in their attempts to join and participate in networks by the way

they are perceived by potential network partners. The enforcement of tight regulatory regimes may also militate against this. Hence, greater autonomy in theory may not always translate into greater autonomy in practice. 'Forces of the present' include the task environment, institutional and power configurations, trends of institutional and network change, the balance of transaction costs between network members, information/knowledge/ learning requirements, and internal capabilities for forming and sustaining external links. This provides another important set of considerations. Co-operatives have to respond to the changing macro-economic environment and the forces of globalisation in the way that they build relationships and alliances. For example, Fair Trade networks are encouraging co-operatives to reconsider the way they interact with the market. This has encouraged many co-operatives and co-operative networks, such as the coffee growers' unions in Africa, to develop greater understanding of the needs of the customers to whom they sell their produce, and to work harder at building sustainable relationships with them.

The 'shadow of the future' is felt in terms of people's expectations, anticipations and perceptions of risk. This is an area where co-operatives and co-operative networks provide real advantages for their members. Membership can provide some degree of security against the risks to people's livelihoods and social development. Nevertheless, co-operatives' participation in wider poverty reduction networks can carry different risks – for example, being diverted from their main purpose of meeting the needs of their members. Their direct participation is therefore often a matter for careful consideration. In some cases co-operatives may feel it is best to be cautious, simply raising their awareness by 'mapping out' who potential network partners might be. In others, there may be advantages for co-operatives in developing their relationships further with other organisations which have a shared interest in exchange. Meanwhile, there may be instances where there are clear advantages in developing this commitment still further in a detailed collaboration or 'partnership' with others.

Investigation of the above factors provides a challenging agenda for our research into co-operatives' role and potential in poverty reduction. To support it we will also be considering other approaches that discuss in greater detail the *processes* of network formation, network governance and network management (e.g. Himmelman, 2001; Church et al, 2003; Taschereau & Bolger, 2006; Davies, 2003). These provide useful ways of building up a more general picture of the way that networking impacts upon the extent to which co-operative sectors are able to achieve their goals, and thereby fulfil their role and potential in relation to poverty reduction. We will therefore be investigating how these processes work in a number of co-operatives in our country studies of Tanzania and Sri Lanka. In doing so, a number of key questions must be confronted. To what extent and at what level are network perspectives useful in the real world in which co-operatives/co-operative sectors operate in LEDCs? How much does uncertainty surround the formation and development of networks, and what are its effects? Are there (or are there likely to be) cultural 'tensions' between different actors within the network, and how might these be resolved? Who is going to be responsible for the co-ordination of the network, and what does this mean for the role of co-operatives/co-operative sectors? How is the operation of key 'network features' such as solidarity, trust, reciprocity, loyalty and commitment to be assured between network members? What are the risks of engaging with networks and the implications of network failure? How does this compare with the potential benefits, such as growing their membership and the scale of their business? To secure these potential benefits, co-operatives and co-operative sectors have to get to grips with these and other associated issues - they cannot afford to go in with their eyes closed. This means taking an informed view of the context within which they operate.

The Importance of Context

Context is important. Much of what individual co-operatives do does not involve looking too far outside of the (local) network of economic interests that forms their own membership. This is quite proper, as the main purpose of co-operatives is to serve the interests of their members. At the level of co-operative sectors within particular countries, however, the potential for looking outward is greatly enhanced.

Some would say this is actually becoming inevitable. As we have suggested, co-operatives face new challenges and opportunities brought about by continuing processes of market liberalisation, economic globalisation, the IT revolution, and changes in the national and international balance of powers. For two leading experts, the realities of globalisation are creating “a significant transformation in the ways people imagine themselves, experience others and engage in forms of global interconnectedness in everyday life” (Elliott & Lemert, 2005: 90). Moreover, they argue that as modern societies become more and more de-traditionalised, ways of living must be developed that are more open and experimental than was the case in the past. The authors suggest there are “only three fundamental choices”: *deny* the change and pretend that life goes on as usual; retreat into the traditions, reaffirm them and use them to *attack* what is considered to be the cause of the change; or remake oneself from the inside to *adjust* to a new outside. They argue strongly for the latter:

“Strategies of passivity, resigned acceptance and denial are all ways of limiting the difficult emotional task of relating inner and outer, self and world, identity and difference. Yet such strategies run directly into conflict with the deadly worlds of globalisation” (Elliott & Lemert, 2005: 93).

The extent to which modernisation/detraditionalisation is a factor for the poor in the LEDCs that we are currently studying remains an empirical question. In

some cases these processes may be being accelerated by advances in IT such as email and the World Wide Web. The breakdown of communist socialism and opening up of markets provides a further important set of factors in a number of countries. Case studies have shown how consumer co-operatives are emerging in Armenia and Russia, Credit co-operatives in Poland (Couture et al, 2002), and agricultural co-operatives in Bosnia. What is important is that co-operatives and co-operative sectors do not leave themselves disadvantaged in this emerging 'macro-level' context. To what extent are co-operatives and their local networks affected by globalising social processes? Or are they robust enough to compete with whatever the forces of globalisation throw at them? Answers to these questions will help co-operatives to decide whether to expend their social capital on 'bridging' as well as 'bonding' activities.

Certainly, there is good reason for optimism in co-operatives' potential contribution to wider networks for poverty reduction. In many ways, their familiarity with notions of solidarity, trust, reciprocity, loyalty and commitment - but also a sense of realism about what is required to achieve them in practice - should make co-operatives 'natural' networkers. As stated above, Birchall (2004) has shown how successful co-operatives contribute in far more ways to the UN's Millennium Development Goals than was originally expected. With additional support and more effective linkages, their potential could be even more significantly released. In our current research we are now seeking to define the ways in which co-operatives and co-operative sectors contribute to the alleviation of different forms of poverty in greater detail. In doing so, we draw on the work of Stephen C. Smith (2005), who has identified a series of 16 poverty traps. This work is instructive because Smith has really made an attempt to understand all the different aspects of poverty and what keeps people poor. We are investigating the potential of co-operatives in helping people to escape from such traps, although an early finding is that sometimes co-operatives can themselves become trapped.

Importantly, it should be noted that co-operatives cannot (and should not) be expected to do everything. There are clear and vitally important roles for

government in providing the right kind of environment, and for NGOs in undertaking participatory development among poorer people. However, there is potentially more that co-operatives can do by connecting up with others and taking a conscious role in poverty reduction processes. Unleashing their potential undoubtedly involves giving them the autonomy to operate effectively. However, co-operatives must not use this autonomy unwisely as a means to isolate themselves from other actors in their environment. Strong bonds within primary co-operatives are one thing, but present the risk of making them insular and inward-facing. As Granovetter (1985) underlines in his analysis of 'the strength of weak ties', building bridges to other individuals, groups and organisations in their wider environment can also have positive benefits - both for co-operatives and for society as a whole.

We have pointed out elsewhere (Birchall & Simmons, 2006b) that one of the main problems is communication. For example, how do we help national-level co-operative federations to speak the language of international development? And how do we help international development agencies to understand and appreciate the work of these apex federations? This latter task may be more difficult than that of simply providing good arguments for co-operatives.

Summary and Conclusions

The role and potential of co-operatives have recently started to come to the fore again in discussions about poverty reduction. We are currently engaged in research to investigate these issues in three LEDCs. However, pointing out the strengths and weaknesses of the co-operative model of development is only the first task we have to accomplish. We then have to deal with the practical question of how to enable co-operatives to reach their potential. To what extent can existing co-operative sectors be reformed and strengthened, so that they begin to impact on poverty? We suspect the answer will vary from one country to another. Are there new sectors emerging that are not hampered by having been set up under the old system of government patronage and control, and if so, again how they can be strengthened? How might both old and new sectors be connected up to the poverty reduction strategy process, and what sort of resources (e.g. human, financial, social) do they need to enable them to do this? These are important questions for our research.

However, in this paper we have argued that network perspectives provide another useful agenda for thinking about where co-operatives have come from, where they are now, and where they want to go. Is their role at the core of the network or the periphery? Or is it as boundary-spanning organisations that help to fill structural holes in poverty reduction networks? These remain additional questions for which we must seek answers in our future work. For their part, global organisations such as the UN and World Bank need to make sure they understand the role and potential of co-operatives in poverty reduction. Many co-operatives continue to do their work 'locally'; harnessing their potential means building effective bridges between the two parties. Needless to say, this is a complex process. In moving from the 'global' to the 'local' one encounters a number of 'fuzzy boundaries' amongst various organizational, locational and ownership relationships. In this way, questions of moving from global to local represent two sides of the same coin:

- (i) How do local networks interact with larger-scale processes?

(ii) How do trans-national networks operate and impact at the local level?

We might also reasonably ask here, what is the role of the nation state as a key institutional player? There is a need for all parties to understand each other better, and to find ways, via relationships, partnerships and networks, for a 'strategic alignment' of each other's resources in pursuit of common goals.

Endnotes

¹ For good reviews of pertinent theories, see e.g. Faulkner & De Rond (2000); Thompson (2003); 6 (2004)

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