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Discussion paper

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This paper attempts to provide some answers to questions suggested for discussion in session 2 of the meeting:

- What role do co-operatives play in promoting socio-economic development?
- How useful is the co-operative model compared to other models
- How do co-operatives help to mitigate the adverse impact of the current crisis?
- What lessons can we learn from the experience of co-operatives in previous periods of economic downturn?
- What policy initiatives are needed in the short and long term to enhance the role of co-operatives in social development? What policies work, and where are the policy gaps?

First, in order to have a clear understanding of the subject I want to provide a taxonomy of the different types of co-operative and of their main purposes (see Appendix 1). Apart from the investors of capital, there are three main stakeholders in a business: its consumers, the producers who supply inputs to or take the outputs from the business, and its employees. In a co-operative, usually one of these stakeholders is put at the centre of the business. This gives us three classes: consumer co-ops, producer co-ops and employee-owned co-ops. A simple definition of a co-operative follows: it is a business organisation that is owned and controlled by members who are drawn from one of these three types of stakeholder, and whose benefits go mainly to these members. All the main types of co-operative can be grouped within these three classes, and can be further subdivided by market sector.

There are two complications, summed up by the terms multi-stakeholding and multi-purpose. First, sometimes more than one stakeholder has an ownership stake; the Eroski retail chain has employees and consumers in membership. This is not so radical when we consider that all consumer co-ops have employee members, but they join as consumers and their representation in governance tends to be limited. At Eroski the two stakeholder groups are carefully balanced, with equal representation in a general assembly and a chair who is always a consumer member. The Italian social co-operatives go further and are multi-stakeholding. However, when co-operatives are contracted to provide public goods, they are hedged about by constraints (non-distribution of profits, lock on the assets, diffuse governance structures) and should be considered to be community or social enterprises rather than co-ops. Academics disagree over whether it is possible to take more than one stakeholder into ownership. It increases the costs of governance, making it more likely that there will be conflict, and it is difficult to align the interests of different types of member. [1] On the other hand, if governance is made more complex, with a higher level assembly in which differences can be resolved before they reach the board, it can be done. [2]

Second, some co-ops are multi-purpose. They meet the needs of their members as both consumers and producers. For instance, co-operative banks and credit unions often lend money to people both to meet their consumption needs and their need for working capital to start or expand a business. Farmer co-ops often supply both the inputs needed for farming and the consumer needs of farm families. Because the members are the same people there is no conflict of interest. This point is especially important when we try to understand co-operative banking; Rabobank, for instance, is an agricultural bank that also has millions of ordinary current account holders.

Question 1: What role do co-operatives play in promoting socio-economic development?

Strictly speaking, co-operatives do not promote anything other than their members' interests, so socio-economic development should be treated as a by-product or an aggregate effect. However, their members' needs are diverse and there is good evidence that successful co-ops meet a variety of needs both economic and social, though if there is not a core economic imperative to an organisation it may be better classified as an NGO or CBO (community-based organisation). Appendix 2 attempts to summarise some of the connections between the way the three classes of co-operative meet basic needs, have positive by-products for members and their families, and aggregate effects within the wider society. To find out about the by-products we rely on case studies and small-scale surveys. [3] To quantify the aggregate effects we need good, country-wide statistics. These are patchy and inconsistent and so attempts to argue the general importance of co-operatives are not as persuasive as they might be. The ICA's Global 300 has had a big impact. The recent study of 11 countries in Africa has also provided useful estimates of scale. [4]

Supposing we had the resources and the collective will to produce good statistics, how would we go about it? Probably the best way is to focus on each type of co-operative, using sectoral federations to gather statistics (eg the ICA's sector organisations, WOCCU, IFAP). The main indicators of success would have to be agreed on, and they would differ from one sector to another. In farming, for instance, throughput figures give a sense of the size of the crop moving through co-operative marketing agencies, but if there is processing to add value other measures such as turnover and return on assets are more appropriate. In housing co-ops, turnover is a poor measure, since the aim is to make the rents as low as possible (rents being really a fee for management and maintenance, plus individual contributions to a mortgage). Better measures would be the number of dwellings in management, and the average level of charges compared to competitors. For most consumer and producer co-ops the most powerful indicator is market share, but this is not easy to calculate, particularly when large retail co-ops and agri-food co-ops operate in several different markets and increasingly across national borders. The most powerful measure politically must be the contributions of all the co-operative sectors to national GDP. To know that co-operatives generate 21 per cent of Finland's GDP is compelling. Yet the way this measure is obtained is full of methodological problems. A recent attempt to measure Scotland's co-operative contribution arrived at 'around 4 per cent of GDP', but it was not easy to calculate. [5]

Question 2: How useful is the co-operative model compared to other models

This is a question about organisational comparative advantage. There are two kinds of comparative advantage: general ones derived from the nature of co-ops as member-owned businesses, and particular ones derived from specific types of co-op. The general advantages are derived from membership. Co-ops are uniquely member-owned, member-controlled and exist to provide benefits to members. When the purposes of the business are aligned with those of members the results are loyalty, commitment, shared knowledge, member participation, underpinned by strong economic incentives. [6] These are the kinds of values any business organisation would want but that investor-owned business can only achieve by mimicking the idea of membership. The general disadvantages are the obverse of the advantages; when the purposes of the business are not aligned with those of the members apathy or cynicism result, members lose interest and cease to participate. This leads to management pursuing their own interests, and to complacency and a reinforcement of oligarchic tendencies among the board.

To understand the particular advantages derived from specific types of co-op we have to take into account the inherent advantages of each type, the extent to which they are capable of building on these, and the intensity of competition they are facing. From an evolutionary point of view, they are in competition with other types of organisation doing the same job, and these other types also have their advantages and disadvantages. Then there are the advantages from co-operation between co-ops, both among the same type and different types. Co-operation among the same type is the familiar one of federations and jointly owned businesses that provide scale advantages. Among different types, there is the example of fair trade between consumer co-ops in the North and producer co-ops in the South. In some developing countries, there is an added complication of determining in the first place whether co-operatives are real or pseudo-coops. If the latter, and they are still in the grip of governments or political parties, then none of the inherent advantages apply. There is a real question mark, for instance, about the multi-purpose co-operatives in Sri Lanka, which all the key informants in a recent study declared to be quasi-governmental (or just governmental). The fact that half of them are loss-making and they only survive through the artificial demand created by government food stamps, does not say anything about co-operatives. [7]

Appendix 3 summarises the comparative advantages of co-ops in developing countries, when compared with competitors, derived from a literature review. Appendix 4 lists the advantages and disadvantages suggested by respondents to a survey of different types of co-ops in Tanzania and Sri Lanka. There is no substitute for empirical work in each sector to determine what advantages co-ops have under particular conditions. For instance, researchers have noted a marked difference in the levels of trust between building societies and banks in the UK. [8] Trust is also implicated in the recent policy commitment to co-ops in utilities in Denmark, Sweden and Finland, based on a long history of successful rural electricity and water provision, and a recent history of consumer-led wind power and producer-led biofuels.[9]

Globalisation has produced particular advantages and disadvantages for the three classes of co-ops. Consumer co-ops are expanding beyond national boundaries (Eroski in France) or enter into alliances across borders (NTUC Singapore and China). Producer co-ops are consolidating into giant agri-food businesses with branches in many countries, and are able to offer new opportunities for membership to farmers outside their home countries (Arla Foods in UK, HK in Sweden and Finland). Employee-ownership is being promoted in order to improve productivity and enable firms to gain competitive advantages. Yet the problems of scale are getting worse. Evidence from farmer co-ops shows that the members are becoming distanced from their businesses because of their sheer size and complexity. [10] Consumer co-ops are trying to bind customer-members through a new, technologically sophisticated dividend card (UK Co-operative Group, S-Group in Finland) but the links are still weak. There is a growing problem in trying to reconcile local ownership with transnational operations.

Question 3: How do co-operatives help to mitigate the adverse impact of the current crisis? (cf poverty reduction, employment generation, food security)

There are two crises; the banking crisis and the resulting recession. Financial co-operatives can help lessen the impact of the *banking crisis*. They do this by:

- continuing to trade without the need for government bail-outs

- demonstrating that a more risk-averse sector exists that is focused on the needs of customer-members, and

- showing that there is an alternative to the current policy of greater public regulation of private banks.

- continuing to provide banking and insurance to low income people who would otherwise be unbanked

But they cannot do this if they have also been engaging in risky lending or sub-prime mortgage buying. Cf Dunfermline Building Society in Scotland that bought over £240m buy to let mortgages from two American banks and has had to be taken over by the Nationwide.

Co-ops can lessen the impact of the *recession* through:

- surviving (higher survival rates than their competitors?)

- using member capital rather than bank borrowing to expand the business

- providing services to more risk-averse consumers

More specifically, worker coops can concentrate on employment creation through labour co-ops, employee buyouts and rescues, consumer co-ops on lowering the cost of food and other essentials, and producer co-ops on making members' businesses more productive.

In developing countries, the crisis can be countered by:

- Continued strengthening of the credit union/SACCO sector
- development of farmer co-operatives and new apex organisations to develop their business
- strengthened links between co-operatives north and south, through technical assistance, product development and fair trade
- opportunities for co-operative provision of utilities

Question 4: What lessons can we learn from the experience of co-operatives in previous periods of economic downturn?

Consumer co-ops in retailing tend to flourish (as consumers trust them), but only if they offer good value and a patronage refund. Worker co-ops prove less vulnerable than conventional businesses, but with the danger of self-exploitation. Producer co-ops (particularly in agri-food) become more vulnerable, sometimes going bankrupt, but they can be helped by consolidation of the assets and selling off of loss-making parts of the business.

Protectionism by governments benefits primary producer co-ops (farming, forestry, fishing) by providing price supports and guaranteed sales. But it tends to substitute marketing boards for real co-ops and so wipes out the marketing side of co-operation, leaving only supply co-ops (Scotland, 1930s). Price controls can benefit consumer co-ops in the short term but make them complacent and unable to compete when the controls are lifted (UK, 1960s). Governments tend to support employee-ownership through co-operative development agencies (Sweden) or labour co-ops (Finland). Public works spending sometimes leads to co-operative utilities being favoured (1930s USA).

Question 5: What policy initiatives are needed in the short and long term to enhance the role of co-operatives in social development? What policies work, and where are the policy gaps?

In banking, policies are needed that recognise the particular nature of co-operatives. They should not be over-regulated, and their risk-aversion should be acknowledged. Rules over the amount of assets they should hold can be damaging.

In developed countries, policies should recognise the distinct nature of the member-based business by allowing them their own accounting standards and a tax regime that recognises returns to members.

In developing countries, policies are needed that continue the reform process (see Appendix 5 for a comparison of Tanzania and Sri Lanka). Reforms in the terms of trade need to be negotiated, both between developing and developed countries and between developing countries (particularly in Africa). In urban areas, governments should provide a supportive environment for the informal economy, in rural areas for the farmer economy. Reinstatement of effective, farmer-oriented rural extension services is essential. Opportunities need to be provided for consumer co-operative utility provision rather than private for-profits. The advantages of co-operative forms over NGOs need to be better recognised, and NGOs challenged to become more member-based.

APPENDIX 1: A suggested typology of co-operatives and their main purposes

CLASS	**TYPES**	**MARKET SECTOR**	**PURPOSE**
CONSUMER O-OP	General retail Specialist retail Financial services Housing Health and social care Utilities Public services	Food, non-food, white goods, clothing Pharmacy, funerals, travel, garage services Banking, assurance, life insurance Continuing housing co-op, self-build co-op Health insurance, user-owned health or social care provision Electricity, water, telecoms Child care co-ops, co-operative schools, health centres	To increase the supply of certain products or services; to lower the cost to the consumer of a variety of products and services; to counter potential monopolies among suppliers; to provide better quality services than other types can do; to decrease risks to consumers and increase trust in the supplier; to give consumers greater involvement in provision
PRODUCER CO-	Primary	Supply of goods, services or	In supply of goods and

OP	producer: farming, fishery, forestry Retailer (wholesaling supply) Shared services for self-employed, small businesses and professionals	credit (inputs), marketing (outputs), processing (value added) Supermarkets, hardware stores, pharmacy A wide variety of sectors, including taxi drivers, artisans, market traders, dentists	services to the business, all of the above apply, but with the aim being to supply inputs to enable production of new, added value products or services. In marketing and processing, to maximise the return to producers from their own product
EMPLOYEE-OWNED (WORKER) CO-OP	Continuum from labour-only coop to complex conglomerate	A wide variety of sectors	To provide decent work; to secure a greater return to labour; to gain employee-control over working conditions

APPENDIX 2: Socio-economic development through co-ops

TYPE	BASIC NEEDS MET	BY-PRODUCTS	AGGREGATE EFFECTS
CONSUMER CO-OP	Access to basic goods and services at near as possible to cost price.	Income goes further, and savings are made. These encourage expenditure in other areas – nutrition, health care, education	Lower mortality and morbidity in women and children. Higher rates of school attendance (especially for girls).
PRODUCER CO-OP	Higher price for product, higher profit, stable and guaranteed income	Increased capability, ability to spend on meeting basic needs (education, health, nutrition, life insurance). Ability to plan for the future, to expand the business, take risks	Increased productivity, diversification of economy, financial ‘deepening’, boost to rural economy (farming), improved health and safety (urban economy)
EMPLOYEE-OWNED (WORKER) CO-OP	Decent work; greater return to labour; job protection, employee-control	Increased capability, higher and more stable income leading to expenditure on meeting basic needs (education, health, nutrition etc).	Reduction in unemployment, improved skills base, increased output/GDP, export earnings, improved health and safety

		Increased opportunities for training	

APPENDIX 3: Organisational Comparative Advantage of co-ops in developing countries – summary from the literature

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

Appendix 4: some advantages of co-operatives in Tanzania and Sri Lanka, as identified by respondents to a sample survey (managers and directors)

ADVANTAGES

- *financial advantages*
- *flexibility*
- *understanding*
- *supporting production*
- *marketing support*
- *help to the poor*
- *welfare orientation*
- *wider developmental role*
- *relationship with government*
- *ability to collaborate*

- *collective empowerment*
- *democracy and accountability*
- *equality*
- *ownership*
- *unity and togetherness*
- *member/community support*
- *connectedness and reach*
- *physical proximity to poor populations*
- *importance of trust*
- *ethical business activity*

DISADVANTAGES

- *Financial disadvantages*
- *Relationship with government*
- *Lack of trust*
- *Democracy and accountability*
- *Inflexibility*
- *Lack of skills*
- *Technical resource issues*
- *Lack of marketing support*

Appendix 5: stages in the reform process in Tanzania and Sri Lanka (Birchall and Simmons, 2008)

Elements of reform	**Tanzania**	**Sri Lanka**
Reform champions emerge who are influential with govt	Yes, including key players	Yes, but not at centre of govt and outside the MPCS system
Coalition with political resources	Yes	No
Objective state of the movement report is made by experts	Yes in 2000, Presidential Commisison leading to reform process	Yes in 2001, Presidential Commission but leading nowhere
New co-operative law is drawn up	yes	Yes
New co-operative law is enacted	Yes, in 2003	No, and not likely to be in near future
New byelaws are drawn up for co-ops	Yes, and disseminated by Co-op Registrar	No
Changes made at regional, district levels	Beginning	No
Budget allocated by central govt	Yes, but is it enough?	No, but Sanasa movement gets aid from international donors
Education campaign among co-op members	Yes, begun in 1996 through Memcoop programme, but	No, but ongoing work in Sanasa societies

	will it continue?	
New elections for the board	Yes, in staged progress through regions	No
Debts forgiven, new financial basis for co-ops	Yes, 23bn shillings of debt to public authorities written off	No, but around half of the MPCSs are insolvent
Leadership, management training, access to finance	Yes, as part of reform process	No, but Nisped project targets co-ops in Tsunami region
Business strengthening programmes are begun	No, but coffee co-ops benefit from fair trade partnerships	No, but Sanasa is continually trying to strengthen primaries
Support is given for product development, opening up of markets	Yes, but by northern fair trade organisations, co-ops	Yes, but by northern fair trade organisations, co-ops
Primary co-ops are encouraged to link up to form secondaries, business ventures	Yes, Kilimanjaro Bank, and primary export co-ops are bypassing old district unions	Not in MPCSs, but in Sanasa co-ops own a development bank and associated businesses
Apex co-ops are formed or reformed	Yes, but capacity of TFC is in question	Not in MPCS system, but Sanasa societies invest in bank, associated businesses
New national-level business arms are created to support primary co-ops	No, but feasibility of a Co-op Bank is being studied	Yes, through Sanasa, women's co-op bank

[1] See Hansmann (1996), Shah (1997)
[2] Turnbull, S (2001)
[3] See Birchall (2004) and Birchall and Simmons (2008)
[4] Develtere et al
[5] See Birchall (2009) forthcoming
[6] Shah, T (1997)
[7] See Birchall, J and Simmons, R (2008) *Final report to the ESRC: co-operatives and poverty reduction project*, on www.esrc.ac.uk
[8] The Cambridge study of BSs
[9] See Birchall (2009) forthcoming
[10] Observation from Jerker Nilsson