

Cooperatives – the magic bullet of poverty reduction?

With the values and principles that they are based on, cooperatives appear to be virtually predestined for combating poverty. Even so, in development cooperation, they have been consigned to the shadows for many years. This article gives an account of how the notion of cooperatives evolved and examines the issue of how important – and realistic – the principle of “pure self-help” really is.

Cooperatives have tended to be viewed critically in international development cooperation since the 1980s. For one thing, this may have been due to the notion of cooperatives simply being overloaded with expectations of providing solutions to all sorts of problems, from overcoming the subsistence economy through supporting independent entrepreneurs to democratisation, so that the almost inevitably resulting disappointment led to a counter-reaction. Also, what severely damaged the reputation of cooperatives was their frequently being accused of a “touch of socialism”, which often associated or even equated them with state dirigisme, public mismanagement, corruption and nepotism (also see pages 10–12).

Indeed, the Cold War era that commenced roughly in the 1960s was not restricted to Central and Eastern Europe, but also in Asia, and particularly in Africa, it was a period of forced collectivisation following Lenin’s concepts and inspired by notions of socialism, with all its negative consequences. This was the reason for a certain degree of “cooperative blindness” (Birchall) among international donor organisa-

tions. While advocating what were basically cooperative self-help principles such as free and equitable participation, democratic self-management and solidarity as being helpful and even applying them, they went to great lengths to avoid associating these principles with the concept of cooperatives to prevent any negative reminiscences from surfacing.

It was only in the 1990s that a careful reassessment set in when attempts were made via de-officialisation programmes to release existing cooperatives from the grip of the state and its harnessing them for its purposes. Lately, above all the great success of micro-finance institutions has played a particular role in again focusing more attention on the micro-level in the context of the world-wide halving of extreme poverty aimed for in the Millennium Development Goals, and thus on the possible significance of cooperatives in combating poverty. This has been all the more the case given that the latter have already provided sufficient proof historically of their suitability for this target, at least in western Europe. The International Year of Cooperatives could (and should) be

taken advantage of to reflect on the concept as a whole (see page 33).

■ How the notion of cooperatives emerged in Europe

The development of modern cooperatives is in fact inseparably linked to the advent of the “social question” during the Industrial Revolution in the

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Microfinance institutions’ great success has brought cooperatives and their potential for reducing poverty back into the limelight.



first half of the nineteenth century, and hence to the pauperisation of wide sections of the population. The notion of cooperatives emerged as a humanistic response to the individualism that economic liberalism had unleashed, although it simultaneously kept its distance from the collectivism advocated by socialism and communism. But in addition to idealistic social reformers and philanthropists, the pioneers of cooperatives also included pure pragmatists who, without any ideological reservations, simply regarded cooperatives as an effective means of overcoming the desperate situation prevailing among all those who belonged to the losers of structural change triggered by the industrialisation processes.

Great Britain: the first consumer cooperatives. Initially, the workers were able to benefit from rising employment opportunities thanks to industrialisation. But together with the rise in population, the permanent influx of rural labour and artisans who had

just become unemployed was soon to result in an excess of supply and corresponding falling wages. Proletarian mass misery due to exploitative working conditions, poor provision of low-quality food and miserable accommodation were among the factors prompting English industrial workers in Brighton in 1826 to sell jointly procured better food at cheap prices, thus resulting in the first consumer cooperatives. While this venture was to founder after a few years, the Rochdale Society of Equitable Pioneers, based on the ideas and methodical principles of Welsh industrialist Robert Owen (1771–1858) and founded by 28 weavers from Rochdale in December 1844, represented a cooperative model replicated throughout Britain and beyond.

Germany: the origins of the credit cooperatives. Traditional artisans, whose workshops could no longer compete with industrial mass production, but who, for lack of equity capital, could not make the transition to



Hermann Schulze-Delitzsch (left) and Friedrich Wilhelm Raiffeisen

Photo: DRV

new modes of production, either, were negatively affected by the intensification of competition. This also applied to agriculture and here, in particular, the small peasants, whose problem lay in the exodus of labour that they were unable to make up for with higher productivity. The use of improved seed, fertiliser and agricultural machinery to this end would have required capital that they simply did not have. This applied all the more since, often enough, they were unable to provide sufficient security for personal or mortgage loans from regular banks. If they wished to keep their farm, they therefore had to rely at least partly on private money-lenders, whose exorbitant interest rates could subject them to interest slavery, i.e. the returns from the next harvest were already impounded, but were only enough to pay interest, and not to settle the debts. Incidentally, this is a phenomenon that still exists in a comparable mode in many developing countries. Thus the shortage of capital and a lack of access to credits were central problems throughout Europe that both artisans and other trades people and peasants shared. It was for these problems that solutions were developed in the shape of so-called loan societies and credit associations by German cooperative pioneers Hermann Schulze-Delitzsch (1808–1883), from 1850 on, and, starting in 1864, Friedrich Wilhelm Raiffeisen (1818–1888). These institutions were the forerunners of the credit cooperatives, which today are known as “Volks- und Raiffeisenbanken” (cooperative banks).



Photo: J. Boethling



Photo: K. Desmarowitz

In the Andes countries, forms of cooperation date back to pre-colonial times. Priority was always given to the community's needs and concerns.

■ Two different schools of thought

The basic principle applied here was relatively simple. By committing themselves to joint and several liability, farmers or trades people were able to pool their savings for mutual lending and obtain securities for prefinancing via credits from a regular bank. Although agricultural cooperative purchasing associations and marketing cooperatives were created in addition, the credit cooperatives initiated by Raiffeisen for farmers and by Schulze-Delitzsch for the commercial sector have remained the true characteristic and internationally effective legacy of the German cooperative movement. However, in spite of sharing much common ground, the two pioneers did hold different opinions on some issues. Raiffeisen's image of humanity was shaped by ethical and religious concepts. Against this background, and as mayor, he sought to address the needs of the local population with charitable "welfare associations" based on Christian compassion. Therefore, he was willing to accept support by private donors and the state. But Schulze-Delitzsch, who was liberal member of a Landtag (a German regional government institution), aimed, at least partly, at maintaining independent enterprise

among the trades people, and he correspondingly stressed the principles of self-help and self-responsibility, while strictly rejecting any state intervention. Up to this day, this dispute between different schools of thought has prevailed and also affects the possible role that cooperatives can play in combating poverty. Before this issue is addressed, a look will be taken at cooperatives in developing countries in the following.

■ Cooperative traditions in developing countries and emerging economies

Early forms of associations resembling cooperatives go back a very long time in history and were based on tradition, customs and religion, but also on types of rule. These indigenous concepts can be found in all continents and in almost all developing societies. Even so, there are considerable differences between Asia, Africa and Latin America regarding the form they have assumed relating to cultural specifics. In Asian cultures, even today, community life is above all shaped by religious affiliations (Buddhism, Hinduism, Islam) and by ties with certain castes, families or clans and tribal membership assigning the individual his or her place in the collective. But rather like

in medieval Europe, there were also guilds, brotherhoods and other forms of cooperation supported by self-help that were oriented on e.g. common soil management, mutual financial support and assistance in emergencies. By contrast, in pre-colonial African societies, it was not so much religious affiliations but the individual's integration in a patriarchally oriented kinship and tribal order that played a crucial role regarding the predominant forms of cooperation. The obligation to work for the community in areas ranging from farming and fishing to implementing jurisdiction was focused on the goal of meeting subsistence-oriented community needs with collective self-help. In pre-colonial Latin American societies, there is also evidence of similarly hierarchically structured obligations to perform community work that are frequently linked to indigenous oligarchies (e.g. the Mita of the Incas), but indigenous forms of cooperation (e.g. the Minka in the Andean countries) as well, which go back even further in history. Unlike in Africa and Asia, Spanish and Portuguese colonial rule in Latin America did not replace them with modern models of cooperatives. Rather, the colonial masters attempted to transfer existing forms of rule to themselves, for instance by applying the Spanish Encomienda system to indigenous community structures, the Comunidades.

Focusing on the individual. But all in all, by the twentieth century at the latest, most of the pre- or early cooperative forms had either been replaced with modern western models of cooperatives, or at least they had been covered over by them. In India, for example, the first law on cooperatives outside Europe was adopted in 1904. The crucial difference was that there, it was no longer the community that stood at

the forefront but the individual with his or her inalienable personal rights. The principle of self-help, which implies self-responsibility and self-administration, already places the individual at the centre of cooperation, while supplementary procedural principles such as voluntary and open membership, equal and democratically exercised rights (“one member, one vote”) and also the maintenance of internal and external autonomy support these individual rights: the individual cooperates to the extent to which he or she wishes and without any external force or interference.

■ Facts and myths

However, this somewhat idealising view is restricted by one having to concede that hardly any of the cooperatives were created in this manner and that most of the principles referred to have only been realised to a limited degree. In this context, taking another look at the time of founding cooperatives in nineteenth-century Europe, it becomes apparent that virtually none of the cooperative pioneers was a member of the people actually affected by need and poverty: Robert Owen was an entrepreneur, Raiffeisen a mayor, Schulze-Delitzsch a jurist and politician, and later on, the founder of the successful producer cooperative Mondragon in the Basque Country was Father Arizmendiarieta. It is no different in Asia: the two most successful organisations inspired by the notion of cooperatives were founded by Indian jurist and member of parliament Ela Ramesh Bhatt (1972: Self Employed Women’s Association (SEWA) and by Muhammad Yunus, a university professor in Chittagong (Bangladesh), who started the Grameen Bank in 1983. For honesty’s sake, however, while refer-

ring to third-party support may not be appropriate, one should at least speak of “initiated self-help”. Industrial workers, poor peasants, artisans and trades people and, above all, women who were discriminated against would not have succeeded in setting up a cooperative self-help organisation of their own accord owing to a lack of administrative knowhow and economic potential. Rather, this required both guidance and material support. It may well be the case that many cooperatives have subsequently failed owing to state interference and excessive development promotion measures, but does this already imply the converse conclusion that they would have been successful or emerged without such interventions? If this really were the case, there would be no need to discuss the possible “role” of cooperatives in poverty reduction. One would simply have to wait for the right founding fathers.

■ A pragmatic compromise

A solution to the fundamental debate on the “virgin self-help principle” that would, basically, allow for a consensus could be that of distinguishing between two forms of cooperative association one of which is oriented on setting up a commercial enterprise suitable for a market economy. This could also be referred to as the “Schulze-Delitzsch” model, and here, except for

guidance in setting up the cooperative and possible pump-priming support, external interference would indeed be harmful. The potential membership of this model could comprise smallholders, artisans and small traders belonging to the near poor whose abilities to perform productive self-help could be sustainably strengthened by cooperative activities.

By contrast, in the other concept, which would then be the Raiffeisen model, the emphasis is on combating poverty. A cooperative “for the poor” need not necessarily be economically successful if it contributes to poverty alleviation by initially guiding people who would otherwise have no prospects of gainful employment owing to their sex, their ethnic affiliation and their lack of education towards the capability of productive self-help. Thus, while in the first model, the basically existent self-help potential would merely be brought to come into full effect via advice and (limited) support, in the second model, this potential would first of all have to be created. Obviously, this requires a longer period of more intensive support. Nevertheless, cooperative principles can be helpful here through combining and focusing scarce resources and sharing risks. But for poor people, the true value of cooperatives may already lie in their giving them an opportunity to experience their own potential.

Cooperatives can make poor people aware of their own potential.

Photo: J. Boethling

