



Cooperatives as Pathways to Socioeconomic Empowerment: Critical Review

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ABSTRACT

This paper makes the review that cooperatives can play the same catalytic role, and make the same contributions to economic growth and social advancement, in the developing world as they have in the United States and in other OECD countries. This paper highlights contemporary accomplishments and long-term potential of cooperatives in developing countries where economic, democratic and social transformation is the goal. It provides examples of how the cooperative business model helps low income developing country individuals economically by improving incomes and creating value and investment opportunity along product supply chains in today's global economy; democratically by providing firsthand experience with democratic governance, transparency and member participation; and socially by increasing trust and solidarity, leading to stability in the face of adversity and conflict. The paper concludes that to be effective and successful, cooperatives must continuously achieve two inter-related goals: enhance viability and improve ability to service its members; and remain an economically viable, innovative and competitive enterprise.

Keywords: Cooperative, poverty, social inclusion, Socioeconomic Empowerment.

I. Introduction

Poverty has become a pervasive national and global issue resulting from a state of short-or long-term deprivation and insecurity in basic human needs (Chambers, 1996; Mullen, 1995; Obadan, 2002). Although poverty is relative and more recognized than defined, the poor are those with lower standards of living than a country specific poverty line and people who lack access to the wherewithal to improve their conditions of living themselves unless assisted (World Bank, 2000). Available records show that about 80 percent of the poor live in the rural areas of the developing world countries. The most important subgroups being the small-holder farmers, the landless, artisans, petty traders, service providers and refugees from civil strife, war or drought (World Bank, 1996).

Poverty has become a growing concern to both government and non-governmental agencies the world over, because of the daily increase in the number of people affected, despite measures undertaken to reduce or even alleviate it. Various programmes put in place have not adequately addressed poverty concerns as they failed or were abandoned by successive governments. One important avenue believed to be effective is the use and formation of cooperative societies. This review therefore seeks to investigate the empowerment strategies used by cooperatives to reduce poverty among members and the barriers to achieving better socioeconomic status of individual members. It is believed that cooperatives are a veritable tool for poverty reduction considering the services they render to people. Cooperatives empower people by creating employment for members, facilitate financial services, give members



educational support, social protection, marketing services, mutual aids and labour exchange. Cooperatives also ensure that produce is stored for use during hard times to ensure food security. But cooperatives face problems, such as insecure land tenure rights, low literacy rates, poor management/leadership and the lack of micro credit facilities. In recognition of the roles of cooperatives, a policy thrust is needed to finance the formation of agricultural cooperatives, so that resource-poor farmers can access whatever services cooperatives render.

Today, in an era when many people feel powerless to change their lives, cooperatives represent a strong, vibrant, and viable economic alternative. Cooperatives are formed to meet peoples' mutual needs. They are based on the powerful idea that together, a group of people can achieve goals that none of them could achieve alone. For over 160 years now, cooperatives have been an effective way for people to exert control over their economic livelihoods. They provide a unique tool for achieving one or more economic goals in an increasingly competitive global economy. As governments around the world cut services and withdraw from regulating markets, cooperatives are being considered useful mechanisms to manage risk for members in Agricultural or other similar cooperatives, help salary/wage earners save for the future through a soft-felt monthly contribution that is deducted from source, own what might be difficult for individuals to own by their efforts, strengthen the communities in which they operate through job provision and payment of local taxes. Cooperatives generally provide an economic boost to the community as well.

A cooperative society is *an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking, in which the members actively participate*². This definition covers also groups and associations that are less "formal" than registered cooperatives, provided these groups are based on democratic principles and pursue an economic goal. On the other hand, the definition draws a clear line between cooperatives and capital-based enterprises, community based organizations and NGOs (although cooperatives and NGOs share certain common characteristics).

In all African countries, we come across traditional forms of cooperation which have survived the impact of colonialism and the structural changes which accompanied the so-called modern society. Such traditional self-help groups may be classified into two main categories: work groups whose members help each other in rotation or jointly carry out farming, construction and communal works, and rotating savings and credit associations whose members make regular contributions to a revolving loan fund. Such groups can be found in every country of sub-saharan Africa, and still play a very important role. "Modern" cooperatives, i.e. those falling under the definition given above, have been introduced in Africa by colonial governments to increase cash crop production and to control (and tax) economic activity in rural areas, but also to protect farmers against exploitation from money-lenders and traders. In the former British colonies, cooperatives were created in the 1930s according to the British-Indian pattern of cooperation



and accompanied by a special cooperative act and the establishment of an implementing agency, i.e. the Registrar of Cooperatives. Later, the colonial administration undertook systematic efforts to develop cooperatives into powerful business ventures that, through a vertical structure, controlled much of agricultural production, marketing and processing in rural areas. The French colonial administration introduced so-called "Sociétés Indigènes de Prévoyance" in the early 1920s. These SIPs were parastatal organizations used as instruments for rural development. In 1955, the administration introduced a special act for "state-sponsored" cooperatives and established cooperative supervising authorities.

Empowering people by giving them a good education that will prepare them to have a career and to hold a job that will make them more confident, give them the chance to learn from others, allow them to earn a good living to help their children to live a better life. Empowering implies the recognition that anyone can make the difference in his/her life and other people's lives. In many countries of the world, governments do not/cannot allocate sufficient resources/capacities to efficiently support programmes aiming at poverty reduction. In this context, cooperatives organizations, including a wide range of organizations, may take over this responsibility and promote/support self-help institutions, volunteer organizations, groups of interest, in order to fight poverty eradication. Depending on the level of organization and capacity to articulate needs to address them, the cooperatives can play a critical role in achieving poverty eradication. However, the civil society cannot operate in a vacuum or in isolation. There has to be a network and connection with government institutions,

private sector, international organizations, etc. When people are empowered they are equipped with skills and knowledge with which they will be able to earn a living. In this way, they will both be able to get paid employment or start up a business and earn an income. Earning income is the first step towards poverty eradication.

II. Objective of the Review

This paper briefly surveys the comparative literature, assesses some of the arguments, and discusses the experiences in socio-economic socioeconomic empowerment. The reviews focus on the role of cooperative societies in economic development with a view to throwing some light on the nature and features of cooperatives, the benefits and the formation and management of cooperative societies. The paper takes into account the ways in which cooperatives can act as agents towards socioeconomic empowerment. The justification of the review precipitates from the fact that studies on cooperatives as pathways to socioeconomic empowerment is a new phenomenon, in Ethiopia, reviews of lesson from other experiences on the topic are still scanty and incomprehensive.

III. The Role of Cooperatives in Economic Development

Cooperatives are community-based, rooted in democracy, flexible, and have participatory involvement, which makes them well suited for economic development (Gertler, 2001). The process of developing and sustaining a cooperative involves the processes of developing and promoting community spirit, identity and social organisation as cooperatives play an increasingly important role worldwide in poverty



reduction, facilitating job creation, economic growth and social development (Gibson, 2005). Cooperatives are viewed as important tools for improving the living and working conditions of both women and men. Since the users of the services they provide owned them, cooperatives make decisions that balance the need for profitability with the welfare of their members and the community, which they serve. As cooperatives foster economies of scope and scale, they increase the bargaining power of their members providing them, among others benefits, higher income and social protection. Hence, cooperatives accord members opportunity, protection and empowerment - essential elements in uplifting them from degradation and poverty (Somavia, 2002). As governments around the world cut services and withdraw from regulating markets, cooperatives are being considered useful mechanisms to manage risk for members and keep markets efficient (Henehan, 1997). In a number of ways, cooperatives play important role in global and national economic and social development. With regard to economic and social development, cooperatives promote the "fullest participation of all people" and facilitate a more equitable distribution of the benefits of globalization. They contribute to sustainable human development and have an important role to play in combating social exclusion. Thus the promotion of cooperatives should be considered as one of the pillars of national and international economic and social development (Levin, 2002).

In addition to the direct benefits they provide to members, cooperatives strengthen the communities in which they operate. According to Somavia (2002) cooperatives are specifically seen as significant tools for the creation of decent jobs and for the mobilization of

resources for income generation. Many cooperatives provide jobs and pay local taxes because they operate in specific geographical regions. According to Wikipedia (2006) and Levin (2002) it is estimated that cooperatives employ more than 100 million men and women worldwide. In Nigeria, cooperatives can provide locally needed services, employment, circulate money locally and contribute to a sense of community or social cohesion. They can provide their employees with the opportunities to upgrade their skills through workshops and courses and offer youth in their base communities short and long-term employment positions. Students could also be employed on casual-appointment basis during long vacations. Through these, cooperatives will contribute to economic development.

New challenges and new uncertainties make it urgent to act in order to take advantage of new opportunities as well as to put a halt to the trends which condemn contemporary rural populations to abject poverty. Opportunities originate in a dynamic market-driven "new agriculture" led by high value activities. They originate in major institutional and technological innovations and in new roles for the state, for private actors, and for people centered enterprises in using agriculture and non-agricultural micro and small enterprises (SME) more effectively for development. The challenge is to include smallholders in agricultural growth and to benefit the rural poor through agricultural and rural non-farm employment.

IV. Cooperatives, social inclusion, and empowerment

While the economic literature frequently associates the development of social enterprises with the externalization of service delivery, and thus the contracting



out of public administration, (Carra, 2006), from a more sociological perspective, these organizations can be viewed as the byproduct of a broader historic transition from welfare states to welfare networks (Gonzales, 2007). As globalization and post-industrial pressures associated with technological and demographic shifts have changed the productive infrastructure of national economies, new values, identities and ideological commitments have shifted dominant perceptions of social need. The result of this dual transition, the state's role as the dominant organizing infrastructure of social welfare systems has been substantially undermined (Jessop, 1994; Giddens, 1998; Gilbert, 2004). The ensuing blurring of boundaries between state, society and economy has created an environment conducive to increasingly complex social welfare networks comprised of a mélange of actors including social enterprises (Evers, 1995; Evers, 2004). Blending social, economic and cultural functions typically associated with distinct organizational categories (i.e. mutuals, private firms, and grass roots civil society organizations), social enterprises hybridity can be seen as a unique institutional mutation which in a Darwinian sense allows them to thrive in the current environment of fast paced and continual change.

While much attention has been given to the contribution of social enterprises to the development of a new and improved "stakeholder economy" as mentioned in above, much less attention has been paid to their role in shaping emerging social networks in such a way that alleviates the paradoxical tendency of welfare marketization to produce more bureaucratic and authoritarian social practices, without the beneficiaries of such reformed services being given any

greater dignity, responsibility or citizenship rights (Ferraro, 2003). Focusing on social enterprises' as a potential weapon in the fight against social exclusion provides a key means of assessing their capacity to compensate for the adverse effects of eroding social protections and the "commodification" of welfare - thus improving our understanding of the depth of social enterprises' social contribution. Understanding social marginalization as a form of alienation involving the inability to assert a claim to membership (Wong, 1998) draws attention to the everyday lives of marginalized segments of society. Within the context of an Italian welfare state traditionally characterized by high levels of residualism and selectivity (Ferrera, 1996; Fargion, 1998), social service beneficiaries have tended to be alienated from mainstream social, economic and cultural institutions.

As a result, the common conceptualization of social inclusion as a form of social cohesion is problematic because it minimizes the reality of significant structural inequalities and status differentials that exist between marginalized service users and other citizens. Because efforts to combat atomization and alienation based solely on fostering social bonds among citizens frequently end up promoting rather than eroding traditional hierarchies and inequalities by punishing "deviance" and promoting stability over change, for marginalized service beneficiaries, social inclusion is more effectively gained through empowerment, understood as the enabling of individuals or groups of individuals to develop competencies or capabilities which allow them to overcome impediments to self-actualization and thus social action. As predominately service-based institutions,



social enterprises offer two basic modes of empowering users: consumer empowerment and civic empowerment. *Consumer empowerment* relates to social enterprises' *social production* function. It signifies the ability to foster service users' personal autonomy and individual competency by reducing key informational and institutional barriers to social inclusion. Within the context of developing social markets, understood as a process by which local public administrators purchase and/or finance services from either private or nonprofit entities which organize, manage and deliver them, there is considerable debate concerning their implication for citizen consumers. Whereas some commentators underscore the potential role of social markets to promote a wider variety of services to cater to a more and increasingly diverse cultural, social and economic needs (Savas, 1987; Le Grand, Bartlett, 1993), other commentators see the introduction of market mechanisms as impeding the impetus of government to uphold citizens' rights and guarantee the overall social mission of services, thus encouraging a stigmatizing approach to users while exacerbating gaps in an already threadbare social safety net (Ferraro, 2003; Graefe, 2005; Bode, 2006). While the specific effects of social markets on consumers depend substantially on the structural and cultural fields in which social markets are constructed as well as the regulatory regimes in which economic and social actors are embedded (Bifuco, Vitale, 2004; Fazzi, 2006), these governance factors are intermediated by a variety of organizational and social processes critical to understanding consumer empowerment.

In light of claims that the experience of social cooperatives have unequivocally demonstrated that social enterprises can

substantially modify the supply of welfare services to the advantage of citizens (Borzaga, Scalvini, 2006, p. 18), it is critical to recognize that social enterprises cater to a wide variety of citizens, many of whom are considerably marginalized from the wider communities in which they live. Thus, a key potential value added of social enterprises involved in social assistance lies in their ability to enhance service production in a way that promotes marginalized citizens' personal autonomy as well as their competence as active consumers.

The other mechanism for empowering users relates to social enterprises' *social mobilization* function. Whereas the social production dimension highlights the supply side of service provision and the capacity to empower users as consumers, social mobilization taps the ability to restructure demand within welfare networks by empowering marginalized service users as a collective group of disadvantaged citizens. In this way, *civic empowerment* captures a much thicker understanding of social benefits understood as users' ability to challenge underlying norms and rules of engagement that typically lead inequities and injustices. It is also important to keep in mind that benefits to marginalized service beneficiaries can be consistent with the simultaneous erosion of citizenship rights and thus the undermining of alternative, perhaps more promising efforts for enhancing social inclusion. Thus, while the internal dynamics of service contracting may yield important benefits for citizen consumers, it is critical to also look at the system of contracting itself as a potential source of marginalization on a broader scale. Thus, it signifies the ability of social enterprises to overcome key cultural and psychological barriers to social inclusion,



such as stigmatization, alienation, and lack self-esteem. By connecting social enterprises to social inclusion vis-à-vis the mobilization of populations frequently excluded and/or isolated within stigmatized welfare environments, civic empowerment captures social enterprises capacity to serve as institutional catalysts for challenging a pervasive cultural of estrangement between marginalized welfare claimants and the broader community by harnessing collective dissatisfaction and/or facilitating the civic and political engagement of particularly vulnerable risk groups.

The contribution of cooperative and social enterprises to socio-economic development in Ethiopia

Cooperative and social enterprises are gaining an increasing relevance in transition countries as path-away out of social exclusion. These institutions can be regarded as a beneficial dynamic that can have a relevant impact upon the economic and social development both at national and local level, as they provide access to basic public interest services (social, educational, health, etc.) to local communities, including people who are unable to pay; contribute to a more balanced use and allocation of resources; generate new employment; play a role in enhancing the social capital that is accumulated at the local level; and play a part in taking informal activities out of the underground economy.

Cooperative is association of persons who have voluntarily joined together to a common end through the formation of a democratically controlled organization, making equitable contribution to the capital required and accepting a fair share of the risks and benefits of the undertaking, in which the members actively participate Cooperation among

people of Ethiopia has existed since time immemorial. Traditional forms of cooperation involved: "*iqub*" - voluntarily pooling financial resources; "*Jigie*" "*Wonfel*" - labour resource mobilization to overcome seasonal labour peaks; "insurance" - reciprocal insurance mechanism whereby members contribute membership fees in kind or in cash to meet social needs including wedding and funeral ceremonies Operated independent of the formal markets and less influenced by the political system Cooperative as a legal institution first came into being in Ethiopia in 1960s. Ethiopian Air Line Workers' Saving and Credit, cooperative was established in 1956. During the socialist government i.e. the Derg regime (1974-1991), cooperatives were formed to assist implementation of the government policy of collective ownership of properties. It was then triggered by reforms to the sociopolitical system. Cooperatives have Economic role: Enhance production by providing inputs, Fertilizer (Meherka, 2008), Improved seeds, Pesticides, Machinery (tractor renting), Marketing of outputs (collect, assemble and sell or export agricultural commodities); Poverty reduction (through impacts on income and access to credit from RuSACCOs to engage in income generation activities); Economic growth (value chain): value addition unions engagement in processing of agricultural commodities. Provision of consumer goods, Provision of storage services factors of success.

The factors responsible for success of cooperatives are:

Strong leadership and governance

- Members participation
- Access to financial resources
- Capacity: material and human



- Often NGOs are behind the successful coops
- Nature of commodity handled: coffee, cereals, seed production typical role of government

Three broad challenges/constraints cooperatives in Ethiopia encounter:

1. Lack of comprehensive Cooperative Policy and Strategy;
2. Low Capacity of Cooperative
3. Leadership and Management;
4. Lack of Finance by Cooperatives

Opportunities of cooperatives in Ethiopia

- a. Weak private sector or its exploitative nature urges farmers to act in an organized manner
- b. Provide means of creating competitiveness for small holder farmers;
- c. Government support-directly as well as through projects like RUFIP, HAB
- d. Need for participation in value chain and agribusiness is growing.
- e. Increase in price margin for the producers
- f. Expanding rural agro-processing industries;

As discussed above, assessing both the social production and social mobilization dimensions of organizational capacity is critical for generating a more complete picture of the potentially innovative role of social enterprises in reconfiguring the dominant “service market paradigm” (Osborne, 1998) toward one that signals the creation of more inclusive welfare networks.

V. Conclusion and Recommendations

Educating, training and retraining of members in general and officers in particular is always a challenge to cooperatives especially in developing countries.

Governments are expected to provide a supportive policy, legal and institutional framework, provide support measures based on activities, provide oversight on terms equivalent to other forms of enterprise and social organization.

Successful cooperatives are locally embedded voluntary associations. Members have a group identity and participate in the associative life of the cooperative. They are part of the social economy.

It is generally accepted that homogeneity of interests is a crucial factor in the social dynamics of the groups involved in cooperatives.

Successful cooperatives are results-oriented and creative in finding solutions to the daily problems of the members.

Profitable cooperatives invariably function as demand-driven and market-oriented businesses with market niches and marketable products. They invest in quality management, and their pricing as well as interest rate policies are inspired by the prevailing market conditions rather than an altruistic rationale.

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