



The institution of co-operation: A pathway from governance to spillover and poverty reduction



Rowshan Hannan*

Sustainability Research Institute, School of Earth and Environment, University of Leeds, LS2 9JT, United Kingdom

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ABSTRACT

In this article I present a pathway to understand the links between co-operative governance and poverty reduction in developing countries. This unpacks the relationships between the different internal and external actors in co-operative governance, and the different processes (or areas of activity that the co-operative is engaged in). I examine how a balance can be achieved in the relationships, and how this can then affect the balance in the economic and social goals of the process areas, all of which can lead to a spillover effect impacting poverty. I also discuss social capital, and its place within co-operative governance. I explore how the relationships and processes influence the building and deployment of social capital by co-operatives to impact poverty at the household and village levels. I conclude by pointing to the importance of now operationalising the theories behind the pathway from co-operative governance to spillover, in order to fully understand its relevance for poverty reduction.

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1. Introduction

It is now becoming more generally accepted that co-operatives have a role to play in reducing poverty in developing countries (cf. Birchall, 2003; Develtere, Pollet, & Wanyama, 2008). However, as enterprises that often have to survive in the marketplace, not all co-operatives have the explicit purpose of reducing poverty. So how are they able to do this if they have no intention in this area, and does this make some co-operatives better at reducing poverty than others? These questions take me to the governance structure found at the core of the co-operative institutional form. I examine how the relationships and processes within co-operative governance generate a spillover effect (whether incidentally or intentionally), which is capable of reducing poverty at the household and wider village levels. Co-operatives have an institutional advantage in using this spillover – their membership base directly into communities, and federating structure would allow any spillover to have a wide potential reach. Understanding the spillover effect on poverty is important in ensuring that any support to co-operatives does not undermine it and, where possible, facilitates its flow.

In Section 2, I explore the existence of an institution of co-operation – how it has developed over time, and its significance in understanding the importance of co-operatives in Africa today. In Section 3, I examine the relationships within the co-operative institutional form, and how a balance can be achieved between the internal and external actors in co-operative governance. In Section 4, I then explore how the balance in the relationships can impact the different areas of activity (i.e. the processes) that the co-operative operates in, which can have a spillover effect on poverty. In Section 5, I discuss how co-operative governance is affected by member participation on entry and member withdrawal on exit. In Section 6, I explore the role of social capital, and how co-operative governance can help or hinder its development and use in reducing poverty. In Section 7, I bring together the discussions above (on governance relationships, processes, entry and exit, and social capital) to explore a pathway to improve understanding of how co-operative governance can contribute to the fight against poverty. In Section 8, I present some conclusions.

2. The development of the institution of co-operation

The concept of collectivism has existed since the beginning of society. Informal group formations such as within tribes, families and neighbours were perhaps amongst the first forms of co-operation. Claims on the origin of co-operatives date as far back as 3000 BC, with the formation of co-operative guilds by ancient craftsmen in Egypt (Abeidat 1975, cited in Holmén, 1990:18).

* Correspondence to: Sustainability Research Institute, School of Earth and Environment, University of Leeds, LS2 9JT, United Kingdom.

E-mail addresses: eerh@leeds.ac.uk, rowshan_hannan@yahoo.com

Box 1. History of the co-operative movement in Africa

In Africa, the co-operative model was largely imported by colonial governments, as well as the co-operative movement itself (Hussi, Murphy, Lindberg, & Brennehan, 1993:2; Pollet & Develtere, 2005:14) in the nineteenth and twentieth centuries. The co-operative sector that emerged in Africa was therefore not a 'home-grown or spontaneous movement' (Develtere et al., 2008:2) as in Europe. Its close alignment within government institutions assigned it largely to the public sphere under a 'colonial co-operative paternalism' (Pollet & Develtere, 2005:67) with minimal member control or autonomy. This close alignment often continued following independence with many of the new national governments favouring a co-operative strategy led by the state (Hussi et al., 1993:v; World Bank, 2008:154), which helped them to continue controlling export markets. In the 1980s and 1990s, following economic liberalisation in many developing countries, co-operatives often had to compete for business in the open market. This resulted in a loss of market share by co-operatives and previously established trading links (Develtere et al., 2008:24). In many cases, government intervention, internal mismanagement and strong competition resulted in 'some co-operatives – whole co-operative sectors in some Asian and African countries – weak, unresponsive and detached from their communities' (MacPherson et al., 2001:3). They were either unable or unwilling to change to their new circumstances under a liberalised economy. This led to the collapse of many co-operatives in developing countries, including the loss of people's savings or livelihoods that were tied to them. It developed into a mistrust of co-operatives by people in many developing countries (UN General Assembly, 2009:9).

Co-operation, however, in its modern form is often referred to as dating back to the mid-nineteenth century in Europe (Birchall, 2003; Euro Coop, 2010). During this period of early industrialisation a consumer co-operative was formed by workers in the English town of Rochdale, to provide essential provisions at affordable prices to its members. Co-operation in Europe began from this period with a strong grounding in a social movement of the people and was linked to the labour movement, which arose from difficult living conditions and inadequate consumer protection (Euro Coop, 2010:5). See Box 1 for the history of the movement in Africa. This early history of co-operation suggests that an institution of co-operation exists, much like other fundamental institutions such as the institution of marriage or the institution of education.

Institutions can be defined as 'the norms, rules, habits, customs and routines (both formal and written, or, more often, informal and internalized) which govern society at large' (Brett, 2000:18). The word 'institutions' has a distinct meaning from 'organisations'. If institutions are the 'rules of the game' (North, 2003:19), then organisations are the 'players of the game' (Leftwich & Sen, 2011:323). Institutions influence how organisations are set up and run, where groups of individuals with a common purpose come together to achieve joint objectives (Leftwich & Sen, 2011:323). Institutions can therefore be seen as the embodiment of social norms and values, which are expressed through organisations.

In describing the process of economic change, North (2003:10) refers to a 'circular flow', which begins with initial perceptions of reality. This then leads to the construction of a set of beliefs and ideologies, which then lead to the creation of institutional structures. These then lead to the enactment of policies. This process can feed back on itself to create changes to perceptions, ideologies, institutions and policies. North's circular flow can be adapted to portray the institution of co-operation (see Fig. 1).

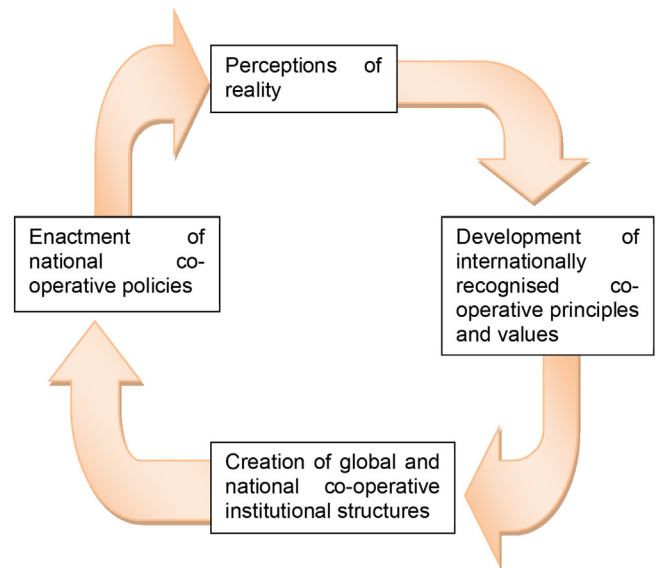


Fig. 1. The development of the institution of co-operation.
Source: Author's own.

This paper takes as its starting point the idea of co-operatives as institutions that embody certain values and principles with respect to their mode of governance, as well as organisations that aim to achieve benefits for their members. It can also be argued that the global co-operative movement, and in some countries the national co-operative movement, is an institution. For example, in Kenya the model of co-operative development and its importance in organising people's social and economic lives, supports this concept of the national movement as an institution. Approximately 63% of Kenya's population is estimated to be engaged in economic activities that are either directly or indirectly linked to the movement (Wanyama, 2009:26) as well as in social and family life (for example, by supporting housing initiatives for the poor, and in developing insurance models at scale that are more affordable to poor families). The primary co-operative society, which is usually found at the community level, also embodies important social norms, rules and values at a local level.

2.1. Shedding the institutional black box: recognising the importance of co-operative governance

However, the institution of co-operation is not widely recognised, including in discussions of rural poverty reduction. A number of studies explore the important role of rural institutions in reducing poverty and contributing to community development (c.f. Agrawal & Perrin, 2009; Binswanger, 2006; Francis, 2002; Havnevik & Sandstrom, 2000; Shiferaw, Obare, & Muricho, 2008). However, although co-operatives are often mentioned as the main type of producer group in rural areas (Bernard, Collion, Janvry, & De Rondot, 2008:2189; Bernard & Spielman, 2009:60; Shiferaw et al., 2008:37), they are often not directly acknowledged in contributing to poverty reduction in rural areas. This 'co-operative blindness' (Birchall, 2003:iv) is perpetuated by the legacy that co-operatives have inherited in developing countries (see Box 1). The word 'co-operative' continues to attract scepticism from many (DFID, 2005:2), and has been a key reason for the construction of a 'black box' which bunches co-operatives with other types of farmer organisations. Although this has protected co-operatives, to a certain extent, from loss of interest from some quarters (such as development partners) the existence of an institutional black-box around farmer organisations also means that the advantages of the

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