

Cooperatives and the capabilities of the poor

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Abstract

The paper reviews main theoretical reasons explaining why cooperatives and cooperation in developing, rural and poor countries, have a comparative advantage in enlarging poor people's capabilities. In particular, we consider main pillars of the Capability Approach to human development with reference to the relation between groups and capabilities, and discuss why cooperative groups can support participatory human development, grassroots empowerment and human poverty alleviation.

Keywords: Cooperatives, Cooperation, Poverty, Capability Approach.

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1. Introduction

In developing countries cooperatives emerge to improve the economic status of its members and the community at large. Workers firms, i.e., a type of cooperative firm (in the past often named labor-managed firms) in which workers own and manage production assets, create jobs and better working environments, pay decent wages and provide additional income through surplus revenue sharing^[1]. They also promote community development and enhance the quality of life of their members.

Consistently, the International Cooperative Alliance defines cooperative firms as groups of individuals coming together voluntarily to promote their common economic, cultural and social interests by jointly owning, and democratically managing, social enterprises^[2]. For this reason, in developing countries, the cooperative model is increasingly seen as a fundamental business model for fighting poverty and social exclusion.

In last years, the economic development literature produced by scholars of developing nations has widely used Amartya Sen's Capability Approach to emphasize how cooperatives and workers firms are important vehicles of capabilities enlargements^[3,4]. Among others, Matindike et al.^[5] show that micro-finance cooperatives defeminise poverty and enlarge women capabilities; Nargis^[6] discusses how cooperatively-managed micro-finance programs contribute to social and community development with participants feeling more respected and dignified; Kahamba and Xiuli^[7] argue that agricultural production and marketing cooperatives enable women inclusion in the labor force and sustain

women empowerment; Kwapong and Hanisch^[8] point out how workers firms are institutions that provide opportunities, facilitate empowerment and enhance security, thus reducing poverty conceived in terms of capabilities shortfalls; Hegde^[9] explains why agricultural cooperatives improve livelihood security of poor people in rural areas or fragile lands.

Usually, these contributions embrace an empirical approach and a list of capabilities to function, without spending too much time and effort in discussing theoretical reasons of why cooperatives can enhance the capabilities of the poor.

Nevertheless, the Capability Approach provides several tools and concepts to investigate why workers firms are conducive of human development. Thus, in this essay, we analyze and discuss main theoretical reasons explaining why cooperatives and cooperation, in developing, rural and poor countries, have a comparative advantage in enlarging the capabilities of the poor. In particular, we shall consider main pillars of the Capability Approach to human development with reference to the relation between groups and capabilities.

Groups have received relatively little attention within the Capability Approach, although they may be instrumentally important for enlarging individual capabilities^[10]. Moreover, the mode of operation of the group itself (group behavior) influences its efficiency, its equity towards members, and the well-being within and outside the group^[11]. As we shall argue, the comparative advantage of the cooperative business model in developing human capabilities lies exactly

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here.

The paper is organized as follows. In the next Section, we briefly review main traits of cooperative organizations. Section 3 introduces the idea of group behavior, and relates it to collective capabilities. Section 4 is devoted to discuss the importance and preeminence of cooperatives, operating in developing and poor nations, as institutions for human development. The last Section concludes.

2. The Cooperative Model

A cooperative firm has several distinguishing characteristics. First, all, or most of, the capital is owned by employees (members) whether individually and/or collectively (capital ownership arrangements can vary). Second, all categories of employees can become members; and most employees are members. Third, membership is voluntary and, therefore, a person may join or leave at will the organization. Fourth, members each have one vote, regardless of the amount of capital they have invested in the organization (the one member one vote principle). Fifth, members vote on strategic issues and manage collectively common resources^[12].

Thus, a cooperative firm is user-owned, i.e., services users also own the cooperative organization; user-controlled, i.e., users make decisions on strategies and policies; and, user-oriented, i.e., members benefit in proportion to individual use (patronage). Further, cooperatives are not motivated by profit, but they aim to meet the economic, social, and cultural needs of their members by providing affordable and high quality goods or services. When a cooperative firm, or organization, generate margins, a portion of these earnings (the so-called rebates) are returned to members in proportion to their use of the cooperative. Moreover, cooperatives are economic enterprises with socio-cultural responsibilities towards the community in which they operate (external mutuality). These commitments for societal well-being can affect cooperative firms' objectives and operations in several ways. For instance, cooperatives usually protect members' employment or, during downturns, can decide to sacrifice profits if required to safeguard employment^[13].

As de Peuter and Dyer-Witheyford^[14] discuss, the history of the cooperative movement provides an important example of collective association for managing common-pool resources and common goods. It offers a model of decentralized control of the commons, and connects mutuality to ecological and networked radicalism. Hence, cooperativism can be interwoven with social change and the coming economies beyond private-ownership capitalism.

Finally, firms in which employees are 'co-owners' have more engaged employees and more likely develop a cooperative ethos. As Lebowitz^[15] points out, co-management involves: "a particular kind of partnership, a partnership between the workers of an enterprise and society. Thus, it stresses that enterprises do not belong to the workers alone, they are meant to

be operated in the interest of the whole society. In other words, co-management is not intended only to remove the self-interested capitalist, leaving in place self-interested workers; rather, it is also meant to change the purpose of productive activity. It means the effort to find ways both to allow for the development of the full potential of workers and also for every member of society, all working people, to be the beneficiaries of co-management" (p.123).

Common property of productive assets and resources, social production organized by workers, and production for the needs of communities, the three tenets of contemporary state-supported cooperativism, can yield, in developing countries, a cooperative revolution with governments which support, at different policy levels, the development of cooperatives^[16].

3. Groups and Capabilities

If the focus of the Capability Approach is moved from individuals to groups and communities, collective capabilities become crucial. They have also been named joint capabilities or group capabilities^[17]. In what follows, we shall use the three expressions interchangeably. They can be defined as capabilities exercised by a group or, more generally, by a collective entity that operates in order to secure a capability for its members^[18].

Stewart offers the seminal contribution on group capabilities^[19]. As she stresses, collective capabilities enhance well-being, enlarge individual options and influence preferences and values helping to determine valuable functioning achievements. Moreover, inequalities in group capabilities are important not only because they reduce people's individual well-being, but also as central source of conflicts (e.g. environmental conflicts). In her own words: "horizontal inequalities are multidimensional, including political as well as economic and social dimensions. Deprivation (or fear of deprivation) of group access to political resources can be a powerful source of resentment and mobilization. In economic dimensions, it is not only a matter of income, but also of assets and jobs. In social dimensions, it is a question of social outcomes (such as health or nutrition outcomes) and also access to social services of different kinds" (p.192).

On the other hand, Ibrahim remarks that^[20]: "collective capabilities are not simply the sum (or average) of individual capabilities, but rather new capabilities that the individual alone would neither have nor be able to achieve, if he/she did not join a collectivity. Collective capabilities affect individual choices in two ways: first, they affect the individual's perception of the good (i.e., what constitutes a 'valuable functioning' for him/her) and, secondly, they determine his/her ability to achieve these functionings" (p.404).

Furthermore, groups capabilities are not those capabilities that have been labeled as external capabilities, i.e., capabilities only accessible by direct

connection or relationship with others. An example of external capability is children's range of activities which are achievable only through the care of parents. In this case, there is no a group and the action is not collective. Differently, from an ontological point of view, collective capabilities require collective action and collective achievements. For instance, women movements which collectively fight for acquiring the joint capability to vote in elections. In these cases, collective capabilities are instruments for the group acting to make certain rights work for improving living conditions of its members.

According to the Capability Approach, community participation is a socially-embedded activity, and commitment is crucial for sustaining community organizations, self-help groups, and knit social networks. These social groups depend on individual commitment and strong identification with their overall goals and opportunities they create for members^[21]. Put it differently, collective capabilities are individually-dependent. At the same time, individual capabilities are socially-dependent, that is, tied to agents' roles and relationships within groups. In such a sense, they can be relational capabilities^[22].

Murphy^[23] stresses the importance of communities in the expansion of those capabilities "which are only available to, and exercised by, individual human agents working together as part of a group or collective" (p. 323), even if collective capabilities can also be expanded through different types of organization^[24].

Finally, collective combined capabilities, i.e., collective capabilities combined with suitable external conditions for the exercise of group functions (for instance, the collective ability to resist to structural injustices or to react constructively to structural injustices, including collective actions taken by groups aimed at expanding their freedoms), can be related to the existence of a collective subject with a collective will that differs from the simple addition of individual ones^[25].

Straightforwardly, collective capabilities, group functions and group behavior are reciprocally intertwined. As emphasized by Heyer et al.^[11]: "groups are crucial for collective well-being. Not only does collective action overcome externalities and help empower the weak, but the dominant mode of behavior within and between groups is an important aspect of how we relate to one another as human beings" (p.22).

Thus, in performing their functions (allocation functions, pro bono functions and claims ones), groups benefit from the adoption, within and among themselves, of a cooperative mode of behavior. Being cooperative yields better outcomes, both in terms of efficiency and equity. Stewart^[19] clearly states such a need for cooperation: "there are reactions to the renewed dominance of individualistic maximizing behavior [...] these reactions are occurring because there are efficiency costs arising from reduced trust, in addition to the adverse social and environmental consequences. More cooperative modes are needed for

efficiency as well as equity" (pp.48-9).

As we shall argue in the next Section, efficiency, equity, but also identity and self-esteem, voice and aspirations of the poor can be elicited through cooperatives, workers' firms and cooperative organizations. Surely, this is true also in developed countries, but, in relatively poor nations, the efficacy of different modes of group behavior (that are, hierarchies and quasi-markets) in terms of human poverty alleviation will be largely lower.

4. Cooperatives and Human Poverty

As well known, Amartya Sen has widely argued that any definition of poverty should be based on people's entitlements and capabilities^[26,27,28]. His writings on poverty and deprivation have had a strong influence on how international institutions - from the International Labor Organization to the World Bank or the United Nations - have conceived poverty and implemented poverty alleviation programs. In particular, the United Nations Development Program (UNDP) broadly follows Sen's approach^[29]. The UN recognizes that "poverty can also mean the denial of opportunities and choices most basic to human development. To lead a long, healthy, creative life. To have a decent standard of living. To enjoy dignity, self-esteem, the respect of others and the things that people value in life. Human poverty thus looks at more than a lack of income. Since income is not the sum total of human lives, the lack of it cannot be the sum total of human deprivation" (p.25).

Also the World Bank acknowledges Sen's approach to poverty, but enlarges the traditional list of basic capabilities to other forms of human deprivation such as vulnerability, exposure to risk, voicelessness and powerlessness. The Bank identifies the following causes of poverty: a) lack of income and access to basic necessities; b) voicelessness and powerlessness; c) vulnerability to adverse shocks, linked to inability to cope with them^[30]. Accordingly, three main elements stand out in the design of policies to fight human poverty: i) promoting basic social services for human development; ii) facilitating empowerment; iii) enhancing security. Several authors have suggested that cooperatives are the only institutions which can meet all these dimensions of human poverty, especially in poor countries^[31,32,33,34]. Other scholars acknowledge the potential of cooperatives, and other forms of group cooperation, to provide benefits to the poor as long as the poor actively participate in the cooperative. Thanks to inclusion and participation, cooperatives provide a chance for the poor to drive themselves out of poverty by participating and contributing to the pooling of resources^[35].

According to Spear^[36], five sources of cooperative advantage are crucial for human poverty alleviation in developing countries: (i) cooperatives provide effective response to market failures and state crises; (ii) cooperatives are uniquely suited to build on the spirit of self-help of individuals, (iii) cooperatives

build on the solidarity within the community, (iv) cooperatives empower its users, and (v) cooperatives generate positive social externalities.

Nevertheless, for successful cooperative development in developing countries, some preconditions are needed: endurance, cohesion among members, capacity building, awareness that cooperatives can link its members to alternative markets, that they can be the voice of the poor and that they can build a parallel cooperative economy^[37]. When these conditions hold, cooperative firms have a clear comparative advantage, with respect to other institutions, in identifying economic opportunities for the poor, in empowering the disadvantaged to defend their interest, and in providing security by allowing them to convert individual risks into collective risks. Cooperatives create employment, promote democracy, address social protection, and other socioeconomic needs, of the poor. Moreover, as stressed above, groups behaving in a cooperative mode elicit collective capabilities of different sort.

Hence, if cooperatives are formed by cooperating poor individuals such an enhancement should be stronger. Let us exemplify the reason of this with respect to the following dimensions: efficiency, equity, identity and social capital, voice and agency, motivations and aspirations.

- **EFFICIENCY AND RESOURCE ALLOCATION:** the poor may be marginalized because of lack of assets and entitlements that hampers them to access to markets and other economic institutions. By enabling small, poor producers to access retail markets and credit institutions, cooperatives create income-generating opportunities and overstep market failures. Furthermore, cooperatives have enormous potential for delivering pro-poor growth through access to credit, marketing of outputs, creation of employment and skill development^[33]. They can also, as in the case of insurance cooperatives, reduce the consequences of some risks in countries with underdeveloped social security systems^[37];
- **EQUITY:** cooperatives create solidarity mechanisms and, by integrating the poor and the relatively well-off in the same income-generating opportunity, reduce social exclusion. As case studies clearly show, in developing countries cooperative organizations have inbuilt advantages that benefit the poor in promoting gender equality, equal access to health care services or to community services^[5,39]. They also play a crucial role in ensuring environmental sustainability and local natural resources preservation^[31];
- **IDENTITY AND SOCIAL CAPITAL:** according to the Catholic tradition, cooperatives are ideal organization that rebuild lives, develop the personalities of the poor and give back dignity to those excluded from competitive markets^[40]. Cooperative organizations sustain the spirit of self-

help of individuals and feed the sense of group identity. Once the poor have back their identity and dignity, cooperatives can promote key dimensions of social capital such as interdependence and reciprocity among members, the feeling of belonging and mutual trust, cooperation and the strengthening of social networks^[41];

- **VOICE AND AGENCY:** cooperatives implement a model of business based on economic democracy and promote people's participation in democratic and political life. Giving voice to the poor, the impact of cooperative membership on members' agency freedom and self-empowerment is strong especially in developing countries with weak political institutions and democratic tradition^[42];
- **MOTIVATIONS AND ASPIRATIONS:** the cooperative model gives value to mutuality, reciprocity and altruism as intrinsic motivations which support commitment and ethical behavior^[43]. What matter for cooperation are conditions that yield a mutually-cooperative relationship, a value commitment to benefit and address the collective^[44]. This will reduce social polarization and the degree of social disconnectedness which relates poverty and aspirations failure. Cooperative groups can be repository of pooled information that foster the sharing of experiences among peers. Yet, they can give visibility and credibility to members' goals and objectives, and sustain their capacities to aspire and to pursue social change^[45].

In sum, especially in developing countries, participatory human development and poverty reduction need cooperative development if they want to succeed. Cooperative groups, organizations and firms provide collective capabilities to the poor through which they can empower themselves. In contexts where such an empowerment process cannot be activated individualistically, and through market institutions, their contribution in the fight against human poverty is essential.

5. Conclusion

Cooperatives in developing countries can sustain social change. When a person joins a group, and acts collectively, he/she generates a changing stimulation, creating changing and diverse actions/reactions in peers and other group members. In this way, sharing needs and opportunities, and working with others for such a result, can create some important modifications in how the poor define and develop their social self and perceives the common. Moreover, for individuals actively involved in pro-poor cooperatives, everyday activities are focused on achieving productive/re-productive conditions such that common resources can satisfy some shared needs. In this way, the poor can develop his agency by participating in the social creation of his living conditions. Productive results are freely accessible to group members, and the organization of operating

activities is carried out by participants themselves, i.e., participants determine rules of cooperation, decision-making procedures and conflict resolution mechanisms.

From a collective capabilities perspective, cooperatives among poor in developing countries allow individuals to reach consensus on central capabilities without having to acknowledge the value of functionalities they cannot perform, and which they lead a dignified life without^[46]. Through cooperation and group loyalty, poor people can, as far as possible, mobilize resources and relations to pursue whichever capability they wish, rather than a given list of capabilities endorsed by governments or international institutions. In this way, cooperatives promote "capability as such" and grassroots development^[47].

As the founders of the cooperative movement knew well, by liberating the poor from the obstacles of life he faces in the course of empowering himself, cooperative organizations operate as peers communities for human development in environments where neither markets, nor public institutions can work.

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