

# THE ROLE OF COOPERATIVES IN POVERTY ALLEVIATION<sup>®</sup>

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## 1. Introduction

Consider the following situations:

- A- A destitute is begging for alms at a public park to buy food from a nearby food stand.
- B- A young university-trained professional lost her job a few months ago and her bills are mounting because she is still unemployed.
- C- An investor is unable to pay his children's school fees this semester because his expected earnings from investments did not materialize.
- D- A millionaire needs to take tranquilizers every night because he cannot sleep without them.

Which of these four people would you consider poor? A is both *income-poor* and *socially deprived*. B may not be socially deprived, being well educated but she is income-poor, being out of employment. C is cash-poor, but only for a short time because he can convert his investments into cash if necessary. D is not poor by any material standards, but he is *spirit-poor* because money cannot buy him a sound sleep! In general, a discussion of poverty as a socio-economic issue is limited mainly to the situations covered in A and B above. But cooperatives that pride themselves as “enterprises with a soul”<sup>1</sup> will target all 4 cases!

The definition and measurement of poverty can be quite elusive. It varies from place to place and from time to time. The **World Bank** has listed the following as faces of poverty:<sup>2</sup>

- *Hunger, lack of shelter*
- *Being sick and not being able to see a doctor*
- *Not being able to go to school and not knowing how to read*
- *Not having a job*
- *Fear for the future, living one day at a time*
- *Living in an unhealthy environment*
- *Powerlessness, lack of representation and freedom*

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The UNDP devoted its *Human Development Report 1997* to “Human Development to eradicate Poverty.” In that report, poverty is classified into “poverty of income” and “poverty from a human development perspective- denial of choices and opportunities for living a tolerable life.”<sup>3</sup> The UNDP’s “balance sheet” of poverty by the year 2000 includes the following disturbing statistics:

- ❑ *More than one quarter of the population of the developing world still lives in poverty as measured by the **Human Poverty Index, HPI**. For example, 35 of the 78 developing countries covered by the report have an HPI in excess of 33%. About 1.3 billion people live on incomes of less than US\$1 a day. Nearly a billion are illiterate. Well over a billion lack access to safe water. Some 840 million people lack food security. Life expectancy for a third of the people in the least developing countries is under age 40.*
- ❑ *In Latin America and the Caribbean, income poverty is more pervasive than human poverty and it continues to grow. In other words, high unemployment has reduced highly educated people to poverty. So, even though the HPI of the region is 15%, the income poverty level is still 24%.*
- ❑ *Children, women and the aged are the most vulnerable groups affected by poverty.*

An ILO report has suggested that young people, mostly less than 21 years of age, are responsible for a disproportionate share of crime and violence, including murder, in Caribbean societies.<sup>4</sup> It is clear from the foregoing that poverty may never go away. That is why strategies have changed from “poverty eradication” (which is impossible) to “poverty reduction or alleviation.” In this address, I shall present the strategies recommended by UN organizations and other international agencies for poverty alleviation and suggest the role that cooperatives could play.

## **2. Strategies for Poverty Alleviation**

The UNDP report under reference recognizes that strategies would differ from country to country. Nevertheless, it proposed the following six priorities for global action on poverty alleviation<sup>5</sup>:

- (a) Start with empowering women and men to participate in decisions that affect their lives and that enable them to build their strengths and assets.*
- (b) Gender equality is essential for empowering women and for minimizing poverty.*
- (c) Sustained poverty reduction requires pro-poor growth in all countries.*
- (d) Globalization offers great opportunities, but only if it is managed more carefully and with more concern for global equity.*

- (e) The state must provide an enabling environment for broad-based political support and alliances for pro-poor policies and markets.*
- (f) Special international support is needed for special situations, such as to open agricultural markets for the exports from poor countries.*

### **3. The Role of Cooperatives**

7 July 2001 has just been marked as the 7<sup>th</sup> UN International Day of Cooperatives and the 79<sup>th</sup> ICA International Cooperative Day. It is estimated that there are now over 760 million individuals who have chosen the Cooperative Advantage.<sup>6</sup> Values, principles, ethics and business competence constitute the Cooperative Advantage, both for members and for the communities in which they operate. Since cooperatives are member-owned and member-controlled under democratic principles, they certainly put people first. Increasingly, they are embracing cooperative entrepreneurship in order to make them competitive enterprises. Therefore, I strongly believe that cooperatives can contribute a great deal to poverty alleviation. Let us see what they can do in the six priority areas listed by the UNDP.

#### **(a) Empowerment of men and women**

This strategy entails the following:

- ✓ *Political commitment to securing and protecting the political, economic, social and civil rights of poor people;*
- ✓ *Policy reforms and actions to enable poor people to gain access to assets so as to make them less vulnerable;*
- ✓ *Education and health care for all, including safe water and sanitation;*
- ✓ *Social safety nets to prevent people from falling into destitution or to rescue them from disaster.*

Both directly and indirectly, cooperatives help both members and employees to escape from poverty or to protect those of them who may be facing the risk of poverty. In the 22 Caribbean state members of the CCCU, credit union membership (90% of all cooperatives in the sub-region) represents an effective penetration of 25% of population and 45% of the labour force. National credit union leagues have influenced cooperative legislation to favour more self-regulation and government-private sector cooperation.

In many countries, cooperatives are in the forefront in the production and marketing of foodstuffs, electricity and consumer goods as well as financial, insurance and social services (see box). For example, cooperatives control 100% of market share in potato production in the Netherlands, 40% of agricultural marketing in South Korea, 33% of the Finnish banking sector and 13% of electricity supply in the United States. The COK Credit Union Limited is a major

player in the Jamaican economy in terms of assets mobilization, competitive financial services and employment creation.

<b>CONTRIBUTION OF COOPERATIVES TO ECONOMIC EMPOWERMENT</b>		
<b>Sector/Activity</b>	<b>Country Example</b>	<b>Market Share</b>
<u>Agriculture</u>		
(a) Potato Production	Netherlands	100%
(b) Fisheries	Malta	90%
(c) Cotton Production	Burkina Faso	77%
<u>Agricultural Marketing</u>	Korea	40%
<u>Exports</u>	Uruguay	40%
<u>Consumer</u>	India	37%
<u>Health</u>	Colombia	24%
<u>Banking</u>	Finland	33%
<u>Insurance</u>	Honduras	27%
<u>Credit</u>	Cyprus	35%
<u>Electricity</u>	U.S.A.	13%
<u>Information Technology</u>		
<u>Operations</u>	Brazil	4.7%
<i>Source: ICA, The Co-operative Advantage, June 2001</i>		

(b) Gender equality

In the Caribbean, women account for 58% of credit union members and 42% of elected leaders. One of the biggest, and perhaps the most innovative, of the credit unions has a woman as its chief executive. The cooperative movement actively promotes this healthy development. Nevertheless, women (and the youth) lag behind in share of assets and access to credit.

A disturbing trend in the Caribbean is that girls are becoming more educated than boys. Since education is a major means for poverty alleviation, a situation is developing where poorer boys feel inferior to better off girls. Already, domestic violence, single parenting and common law marriages are on the upswing. The CCCU can lead the national leagues to do something in this area as a community service to promote gender equality in due course.

(c) Pro-poor growth

Rapid economic growth is desirable, but wealth distribution is equally important. UNDP data show that in 29 of 68 developing countries, the ratio of the incomes of the richest 20% to those of the poorest 20% exceeds 10 to 1. In Latin America and the Caribbean, the richest 20% have average incomes of US\$17,000 whereas the poorest 20% earn US\$930, a ratio of 18 to 1. Such inequalities breed social

discontent and violence, as was recently experienced in a major Caribbean country.

By promoting student and youth programmes and cooperative entrepreneurship, Caribbean cooperatives can play a major role in bridging the gap. They can also influence political processes and legislation in favour of the socially deprived. In Trinidad & Tobago, for example, a bill is being proposed that will reserve a percentage of government contracts for small enterprises. The credit union membership in that country is 20% of the population. That is also a sizeable proportion of the electorate. So, the League is in a good position to influence the passage of such a pro-poor legislation.

(d) Global benefits from global competition

With the removal of protective trade agreements, such as the EU-ACP *Lome Conventions*, Caribbean countries are as vulnerable to globalization as they are to the hurricanes. Even in the areas where they have comparative advantage (such as tourism, they face keen competition from American and European cruise operators. Therefore, governments facing dwindling revenues cannot guarantee employment or security of lives and property. The key lies in export promotion through productivity improvement and competitive enterprise management.

A major obstacle to productivity improvement in the sub-region is a laid-back attitude of the people, a cultural tendency to take things easy or to cross the bridge only when it has started caving in. With its solid spiritual foundation and emphasis on ethics and principles, the cooperative movement can flag off a paradigm shift in work ethics. The downstream activities in tourism, such as agricultural products (eggs, vegetables), transportation and basic supplies (towels, bed sheets, etc.) can competitively be done by cooperatives. Also, by promoting sub-regional harmonization of cooperative legislation and prudential guidelines, cooperative performance can be enhanced.

A recent development at the international level is ICA's winning of an own top-level domain name, **---.coop**, for cooperatives worldwide. A top-level domain is a suffix that appears at the end of an Internet address. Examples are **.com**, **.net** and **.org**. With **.coop**, cooperatives and cooperative service organizations worldwide now have a consistent Internet identity. How does this help in poverty alleviation? A poor organization cannot help poor people! Now that Caribbean cooperatives can see themselves as part of a prestigious global family, they may begin to think bigger things for themselves and their communities.

(e) An enabling environment for pro-poor policies and markets

The AGMs (or any major event) of the credit union league in most Caribbean countries tend to be addressed by top political/government leaders. That suggests that cooperatives are in a very good position to join community groups,

professional associations, trade unions, private companies, the media, political parties and government institutions to form broad-based partnership for poverty alleviation.

(f) Special international support

A major contributor to worsening poverty in developing countries is corruption of leaders and officials in both the public and private sectors, due largely to the weak institutional infrastructure for promoting accountability. Consequently, budgets for poverty alleviation could be diverted into wrong hands. A related development is that the greater part of foreign aid or investment may go back to the donors by way of expatriate technical assistance personnel and equipment.

Through the ICA, the UN and other international agencies, cooperatives can join the international movement for promoting transparency and enforcing international standards. For example, the ICA and the UN Department for Policy Co-ordination and Sustainable Development have co-hosted a World Summit for Social Development. In its Declaration, the Summit “commits itself to utilize fully the potential and contribution of cooperatives for the eradication of poverty.”<sup>7</sup>

#### 4. Conclusion

In his report to the General Assembly of the UN on cooperatives [document A/49/213 of 1 July 1994], the Secretary-General concluded, “cooperative enterprises provide the organizational means whereby a significant proportion of humanity is able to take into its own hands the tasks of creating productive employment, overcoming poverty and achieving social integration.” He added that cooperatives have “continued to be an important means, often the only one available, whereby the poor, as well as those better off but at perpetual risk of becoming poor, have been able to achieve economic security and an acceptable standard of living and quality of life.”

Those sentiments are as true today as they were seven years ago. That is why the ILO is currently revising its international standard, *Recommendation 127*, on the promotion of cooperatives to bring it in line with the challenges of globalization. Happily, the Caribbean is very active in the process, as exemplified by the recently held (May 2001) ILO-sponsored meeting of the Registrars of Cooperatives in Kingston, Jamaica, and the 89<sup>th</sup> Session of the International Labour Conference in June 2001 at which the Trinidad & Tobago Government delegate, Mrs. Madhuri Supersad, served as the Reporter for the Cooperatives Committee. The Cooperative Branch of the ILO, Geneva, has also run ACOPAM, a programme of poverty alleviation through job creation in the Sahel Region of Africa. The programme has run for 21 years and during its last phase, 1996-2000, it created a total of 56,000 jobs in five countries. ACOPAM has published a large number of manuals. A separate brochure, with a CD-ROM containing the manuals, is available from the ILO Cooperative Branch.

Poverty alleviation through job creation has become a top priority of the ILO Cooperative Branch. A global programme is being developed that will focus on the promotion of the most employment-intensive types of cooperatives through a mixture of policy advice and operational activities in the field. The ILO would welcome ideas and proposals from the CCCU in this regard.

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<sup>1</sup> “What is the Co-operative Advantage? Replies from Co-operators,” International Co-operative Alliance (ICA), Geneva, 2001, [www.coop.org](http://www.coop.org)

<sup>2</sup> [www.worldbank.org/poverty/mission/upl.htm](http://www.worldbank.org/poverty/mission/upl.htm)

<sup>3</sup> “Human Development to eradicate Poverty,” *Human Development Report 1997*, [www.undp.org/hdro/97.htm](http://www.undp.org/hdro/97.htm)

<sup>4</sup> [www.ilocarib.org.tt/insources/youth\\_employment/youth2.html](http://www.ilocarib.org.tt/insources/youth_employment/youth2.html)

<sup>5</sup> [www.undp.org/hdro/e97over.htm](http://www.undp.org/hdro/e97over.htm)

<sup>6</sup> “The Cooperative Advantage in the Third Millennium,” Message from the ICA, Geneva, [www.coop.org](http://www.coop.org)

<sup>7</sup> [www.wisc.edu/uwcc/icic/orgs/ica/un/conf/world-sum/wssd/poverty.html](http://www.wisc.edu/uwcc/icic/orgs/ica/un/conf/world-sum/wssd/poverty.html)