

The Cooperative Alternative

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WASHINGTON, DC – In an era in which conventional models of finance, corporate governance, and corporate responsibility are increasingly debated, if not called into question, it may be time to revisit the alternative approach taken by economic cooperatives. The foundational values of cooperatives embody not only a humane vision, but also a pragmatic approach to production that has enabled the successful ones to thrive – and to spur economic growth in countries that desperately need it.

Cooperative movements took shape in the Americas, Europe, Australia, and Japan in the 1800's. Many grew from the simple proposition that ordinary people could overcome adversity in the marketplace by banding together to buy and sell goods at reasonable prices, and quickly realized the added benefits of sharing knowledge among members, promoting inclusion, and building social capital.

Today, cooperatives cover a range of activities and come in a variety of shapes and sizes, from small-scale agricultural and consumer organizations in Africa to some of the leading agricultural brands and largest financial-service providers in North America and Europe.

According to the International Cooperative Alliance, a cooperative is a “jointly owned and democratically controlled enterprise.” But, beneath this definition lie rich notions of voluntary association, accountability for strategic decisions, and concern for the communities that cooperatives serve.

Cooperatives have helped to bring information and services to far flung rural communities, empower workers, and expand financial services, healthcare, education, and housing. In doing so, they have transformed the economic and social landscape in countless communities. The International Cooperative Alliance reports that more than 800 million people are members of cooperatives worldwide.

Moreover, cooperatives account for a significant share of GDP in many countries, and an especially high share of the agricultural and consumer sectors. Cooperatives are also one of the largest providers of financial intermediation to the poor, serving an estimated 78 million people globally who live on less than \$2 per day.

Of course, cooperatives have sometimes struggled to live up to the ideal. In the most egregious cases, some have fallen victim to bad politics, weak governance, or mismanagement. Others are exposed to risks stemming from concentration in a single business sector, commodity, and/or geographic area.

Cooperatives have also wrestled with questions of members' entry and exit, financial disclosure, and relationships with the non-cooperative sector. And governments have often faced vexing questions with regard to financial regulation and taxation of cooperatives, including treatment of profits and consideration of exemptions.

And now, in a more mobile and urban world, one might ask: can cooperatives maintain their essential character, based on inclusion and knowledge sharing within a community? In a world in which geography is a diminishing barrier to business, can cooperatives sufficiently distinguish themselves as a viable alternative model? Or will they evolve to serve virtual communities, organized around new sets of challenges and opportunities?

The United Nations has declared 2012 the "Year of Cooperatives." This provides a good opportunity to examine the extraordinary history of cooperatives, assess their strengths and weaknesses, and rekindle a discussion about a development model that promises higher levels of inclusion, ownership, self-determination, and concern for community.

The World Bank is active in the development of producer and credit cooperatives around the world. Some of the most notable programs include the Indian Dairy Cooperative, which has created an estimated 250,000 jobs, mostly in rural areas. Similarly, Mexico's National Savings and Financial Services Bank has helped to strengthen savings and credit institutions that serve millions of rural residents who would otherwise have been relegated to the margins of the formal financial sector.

The Bank's policy work has re-affirmed the notion that rural producer organizations are fundamental building blocks of agricultural development. And it has helped governments to supervise and regulate cooperative financial institutions.

As we search for innovative solutions to today's development challenges, we should consider what the cooperative movement can offer. That means not only greater economic inclusion, higher agricultural productivity, strengthened food security, and financial stability, but also lessons concerning responsible and sustainable business practices, corporate governance, and community relations. And we should consider how to facilitate the spread of cooperatives' best practices while avoiding common pitfalls.

The cooperative movement can prompt us to think in new, inspired ways. Capitalizing on cooperatives' successes and learning from their mistakes can help us to expand the menu of options as we search for more inclusive and sustainable models of development, and new ways of building and sharing knowledge.