

Cooperatives and Decentralization: Lessons Learned and Implications

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Cooperatives and other forms of associations have been encouraged by governments, NGOs, and international agencies in many countries for undertaking income generating activities with the hope that they would lead to higher incomes for the members and generate significant public goods. However, in many cases, they have failed to meet these objectives. In this paper, I discuss how to avoid the mistakes of the past in dealing with cooperatives and what the donors should do while supporting them.

Another issue that has received considerable attention from academics and development practitioners is that of decentralization. In this paper, I examine the issue of decentralization vs. centralization with particular attention to the issues of complementarity and varying circumstances related to them.

1. Cooperatives : Lessons Learned and Implications

Broadly, the readings cover two areas which the donors (governments, NGOs, international institutions etc.) need to analyze and be aware of while deciding to support cooperatives and other forms of associations. I describe below what donors need to do with respect to each of these areas.

1.1 Organizational Structure or Form of the Coops

Donors should realize that a particular type of organizational structure need not be a necessary pre-condition for success or failure - same organizational forms can give rise to remarkable successes or failures depending upon structural and environmental factors (Tendler, 1988). They need to remove their general preconceived notions about good coops as being democratic and participatory with rising membership, generating significant public goods, and as a good approach to poverty alleviation. As both Tendler (1988) and Bianchi (1999) have pointed out, entrenched and elitist leadership and lack of democracy in internal decision making need

not necessarily be bad and may even have some advantages such as in providing continuity and bringing skills and experience to their positions (Tendler, 1988) and for developing protected marketing niches (Bianchi, 1999). Elitist leadership with substantial private interests in seeing that the larger goals of the organization are achieved may be good in common interest organizations as they draw on existing structures of authority (Wade, 1987). However, donors need to be aware of the undesirable effects of entrenched leaderships such as corruption, misappropriation, programs that benefit only a few, etc. They need to exercise some control over such undesirable effects by choosing those activities which promote similarity of interests between the better-off leadership and the rest, rather than their differences (Tendler, 1988).

Similarly, lack of growing membership need not always be a cause of concern. It may be a sign of improved management provided there are spillover benefits and the growth of activities is not linked tightly to new membership (Tendler, 1988). When it is a problem due to lack of management skills such as in stores and credit funds, donors should consider funding other activities that are less vulnerable to these problems and less linked to membership growth (Tendler, 1988).

Regarding poverty alleviation, donors need to realize that coops may not be the best way for reaching the poorest groups as they may not provide direct benefits to them except through 'trickle down' effects such as through employment (Tendler, 1988).

Role of Associations and Consortiums: Associations and consortiums can play a very significant role in success of coops. They can help by lobbying with government on issues of common concern, setting and enforcing quality standards, and in creating and accessing markets for the products (Bianchi, 1999). 'Amul' in Gujarat in India has been a very successful example of a large federation of small milk cooperatives capturing a huge market in processed milk products. As in the case of buffalo mozzarella producers in Italy, the strategy of Amul also depended on creating a niche market for its products with its own brand name and maintaining very high quality standards.

1.2 Structural and Environmental Conditions

These conditions are the most important in determining the ultimate success or failure of the coops and donors need to be very careful in analyzing them on these dimensions.

Nature and Sequencing of Activities Undertaken: Donors need to understand the nature of activities which lend themselves for easy performance by coops. Activities which are 'easy', such as those less vulnerable to poor management like agro-processing, and which do not require rigorous discipline in continuous performance and follow up are likely to be good candidates for support, though each case should be judged on merits (Tendler, 1988). Activities which have a significant free rider problem, such as in the case of cooperative agriculture and in management of common pool resources, may be difficult for the inexperienced coops. However, free rider problem may not be a cause for concern in activities that generate spillover benefits to non-members due to economies of scale, and due to their 'public good' nature (such as in road construction, schools etc.) (Tendler, 1988). Proper sequencing of such 'easy' and 'difficult' tasks may be an important determinant of success and failure of the coops. Donors need to be aware of these factors.

Donors should also keep in mind that groups engaged in high return economic activities are likely to be successful (Bianchi, 1999). Associationalism is also likely to succeed when the risks of losses are high (Wade, 1987). Coops are also successful when they are identified with a specific good quality product or when they are associated with a particular social struggle (Bianchi, 1999).

Donors can also use their leverage in changing the environment for coops to force them to function better. One way could be to drastically reduce their permissiveness for certain activities or cutting down on funding to make them perform better (Tendler, 1988).

Social Structure of Communities: Donors need to be aware of the social structure of communities within which the coops are situated as it is an important factor in determining the organizational form and leadership of the coops. In traditional hierarchical social structures,

drawing on existing structures of authority may help in sustaining the organization (Wade, 1987). In some cases, disparities in social status may facilitate the adoption of new products by the group as in the case of buffalo mozzarella producers in southern Italy (Bianchi, 1999). At the same time, economic and social homogeneity of the groups in terms of shared economic and social objectives is an important factor in success of coops (Bianchi, 1999 and Tendler, 1988).

Role of Outside Economic Agents: NGOs, consultants, and marketing intermediaries can play an important role in supporting coops by assisting them to identify or create, and access profitable market niches for their products (Bianchi, 1999, and Healy, 2001). Damiani (2003) has also stressed the importance of outside economic agents in facilitating access to markets for local producers. Supporting coops with dynamic and innovative leaders is also important in ensuring their success (Healy, 2001). Facilitating linkages and collaboration with local universities, research and extension centers can also be very helpful (Bianchi, 1999). Donors can also support coops by facilitating their interactions with the government on issues of concern to them such as infrastructure, access to markets, supply of inputs, and preference in government procurement (Tendler and Amorim, 1996).

2. Decentralization vs. Centralization

Governments in many countries around the world have attempted to introduce decentralization in one form or the other with the intended objectives of improving delivery of goods and services, making governments more responsive to local needs, and improving governance in general. The results have, at best, been mixed. I describe below the major themes on the issue of decentralization vs. centralization that are evident from the readings in this section.

Nature of Decentralization: Decentralization fundamentally refers to making governance at the local level more responsive to the needs of the people, though it has been used to refer to very different things in different contexts (Bardhan, 2002). Decentralization in the context of devolution of political decision-making powers to local governments is very distinct from

deconcentration (which usually refers to delegation of administrative functions to regional offices of the same government) (Crook and Manor, 1995) and mere delegation of administrative powers and functions to local governments. Political decentralization is also distinct from fiscal decentralization and even fiscal decentralization can be of various types ranging from mere delegation of expenditure functions to decentralization of both tax and expenditure (Bardhan, 2002). Decentralization is also distinct from withdrawal or erosion of state authority or lack of administrative and fiscal capacity (Bardhan, 2002). It is also different from privatization of the economy. Even within a country, the degree of decentralization may differ from one sector to another. The institutional context, structure of incentives, and organizations in developing countries pose different implications for decentralization than in the developed countries (Bardhan, 2002). Decentralization also does not mean a minimalist role for the central government, rather it may mean a more activist role for it (Bardhan, 2002 and Tendler, 1997). Finally, despite decentralization, the control of power over people may still be centralized, especially in the case of large territorial subnational governments (Bardhan, 2002).

Another important dimension to the form and success of decentralization is that it depends upon the level of development of the country's social, political and democratic institutions, and on national political traditions and experiences (Crook and Manor, 1995). Countries facing high political instability, lack of democratic institutions and administrative capacity, and severe resource constraints are likely to face significant difficulties in successful decentralization. However, I was intrigued by the finding of Crook and Manor (1995) that civil society played little part in any of the four cases he describes. This is in sharp contrast to the finding by Tendler (1997) of a strong three way dynamic between local, central and civil society in producing impressive results. Considering that India has a large number of very active NGOs in all fields, it came as a surprise to me that civil society had very little role to play in the Karnataka case.

Decentralization vs. Centralization: While decentralization has often been touted as the panacea for all ills, centralization is not necessarily undesirable in all cases. From an economic efficiency point of view, centralization can exploit significant economies of scale and scope and benefit from policy coordination if there are spillovers and no heterogeneity across jurisdictions (Bardhan, 2002). The nature of activities and services may also lend themselves for centralization or decentralization. Activities requiring sophisticated technology and skills may be better performed centrally rather than at the local level.

The main arguments cited in favor of greater decentralization are: better information, improved accountability and responsiveness at the local level, and providing goods and services according to the local needs of the people as against the uniform and standardized approach of the central government (Tendler, 1997). However, in the context of poor countries, local governments may be particularly vulnerable to capture by local interest groups who will then corner a large share of public goods and services (Bardhan, 2002). In such cases, decentralization programs should aim at strengthening local accountability mechanisms. Effective land reforms programs such as those in Kerala and West Bengal in India can be very successful in involving large numbers of poor in local democratic institutions thereby improving accountability (Bardhan, 2002).

3. **Conclusion**

As discussed in the preceding sections, coops can be successful given the right type of structural and environmental conditions. Support mechanisms aiming at improving the structural factors, helping them to find markets for their products, and encouraging capable leaderships can all help them become successful.

Regarding decentralization vs. centralization, it is important to bear in mind the different experiences with decentralization in different countries. The institutional context of a country in terms of the level of development of its political, democratic, and civil society institutions is extremely important in success or failure of decentralization.