

What Co-operatives Can Offer

Economic theory explains the comparative advantage that co-operatives have over other types of organizations in that they:

- develop a transaction cost advantage in mobilizing member initiative and resources;
- show a particularly high level of flexibility and adaptability to changing market situations;
- can successfully produce for or develop demand in niche markets due to their limited size;
- can build up their own resources (e.g. indivisible capital, which in cases is a cheaper source of finance than any other) which make them truly autonomous, able to survive independently of external support and able to compete in the relevant markets;
- can become important local financing institutions, combining the local need for safe-keeping with that of entrepreneurial access to credit;
- inspire innovation, diversification and specialization in their members' enterprises;
- establish self-financed federative systems (e.g. regional co-ops or national unions) for consulting, training, marketing and political representation; and
- positively influence the institutional and normative patterns of local and national environment and international markets.

Evidence further points to the comparative advantage of co-operatives in social terms because they:

- are largely dependent on the membership of natural persons and thus usually locally bound, owned, directed and controlled;
- are the first to face the needs of the local population, are responsible (and hopefully accountable) to them and can rely on the knowledge of local circumstances as well as development potentials in planning their actions.

This seems to be one of the prime reasons which render them uniquely effective for the privatization of public services and as suppliers of local infrastructure;

- instill a high level of identification of the group with the organizational aims;
- promote local knowledge and understanding of democratic processes;
- avoid the development of a recipient mentality on the part of members;
- are institutions capable of managing communal properties without either widening the gap between ownership and control rights or squandering precious resources by merely administering what should be wisely utilized — both in terms of the local economy and ecology;
- cannot run away merely because the capital employed can earn more elsewhere, thus giving local citizens a good measure of certainty in their own economic planning;

- bring members closer to their aims even if — or particularly when — environmental conditions have changed to their disadvantage.

Apart from these direct advantages, co-operatives are also seen to have indirect and longer-term social and economic effects, which influence entrepreneurial attitudes and environmental conditions. Indeed, they are able to:

- initiate or support group processes resulting in the replacement of status thinking and misplaced fear of social reprisal by achievement motivation and confidence for the individual, both essential pre-conditions for local entrepreneurship (and particularly important in developing and transition countries);
- develop new, democratic structures of social control in primary units by integrating local habits, value systems, traditions and customs;
- limit the risk and multiply the gain from local experiments, spread local knowledge and allow for efficient use of public funds spent on training and consulting services to small businesses, farmers, craftsmen and women.

Source: *Promotion of cooperatives*, Report V(1), International Labour Conference, Geneva (2001)