ABSTRACT
A diverse array of significant scale, community-building economic entities flourishes around the world. These locally-based activities produce jobs and promote equity while rooting economic assets in institutions that are accountable to the community. Despite the lessons that they hold for international community-building efforts, these initiatives have been the focus of relatively little study: to date, there appears to be no comprehensive review of mid- to large-scale economic experimentation within communities worldwide. Moreover, existing profiles of viable community-building pathways have tended to avoid scrutiny of the institutional mechanisms by which they build asset ownership and foster community development.

To fill this gap, the Democracy Collaborative and the National Center on Economic and Security Alternatives have mapped and assessed the experiences of mid-to large-scale community-based innovation in twelve countries. This report profiles thirteen cases representing five models of community asset-building: worker co-operatives, consumer co-operatives, micro-credit organizations (including a credit co-operative), public enterprise, and community development/technical assistance organizations. The paper aims to identify and analyze the cases’ institutional strategies for generating productive employment, moving to scale, achieving financial sustainability, and responding to globalization. We find that, in responding to the challenges and opportunities presented in each area, the sample cases have developed a range of innovative organizational and inter-organizational structures, mechanisms of continuous learning, and modes of restructuring, networking, and coalition-building. We elaborate on these strategies and draw relevant lessons for community-building efforts throughout the world, including the United States.

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The Democracy Collaborative
http://www.democracycollaborative.org
College Park, MD

The National Center on Economic and Security Alternatives
http://www.ncesa.org
Washington, D.C.
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I. INTRODUCTION

A diverse array of significant scale, community-building economic entities flourishes throughout Asia, Africa, Europe and the Americas. These alternative economic arrangements comprise a variety of forms, including hybrid consumer-producer enviro-co-operatives, municipal enterprises, micro-credit organizations and community-owned businesses. Neither government- nor corporate-controlled, and larger in scale and more organizationally developed than many well known experiments, the models depart in significant ways from traditional, short-term development projects, top-down government programs and “enlightened entrepreneurship.” The most innovative among them are locally-anchored activities that produce jobs and promote equity while embedding or rooting economic assets—such as capital, land and natural resources—in institutions that are accountable to the community. Most also commit to participatory and democratic operations.

At a time when global market forces are leading to high levels of instability in many communities, it seems particularly important to understand the ways in which anchored structures, when taken to scale, provide opportunities to build stronger, democratic communities. Yet, despite the lessons for international community-building efforts that these models hold, they have been the subject of relatively little study. Indeed, to date, there appears to have been no comprehensive review of mid- to large-scale economic experimentation occurring in communities around the world. While United Nations’ agencies and various nongovernmental organizations have profiled a host of individual, mostly small-scale projects, they have tended to neglect study of the institutional aspects of community-building experimentation, particularly among larger-scale efforts. As a result, current understanding of viable community-building pathways seems informed more by anecdote than by scrutiny of the particular ways in which the institutions build asset ownership and foster community development.

To fill this gap, the Democracy Collaborative and the National Center on Economic and Security Alternatives have mapped and assessed the experiences of mid-to large-scale community-based innovation in twelve countries. The entities that we selected to profile share four central features: 1) they reach significant scale; 2) they achieve some form of “embeddedness” in community-based institutions; 3) they focus on developing assets that are collectively held within the community; and 4) their primary or secondary missions include the expansion of worker/member self-determination and involvement. Many of these institutional developments also have reached significant and sustainable levels of economic expertise, experience, skills and technology. Specifically, we selected thirteen cases representing five models:

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1 Both the present analysis and the survey on which it is based serve as a companion to NCESA’s ongoing research on a diverse group of new asset-holding, community-based institutions in the United States, including community development corporations, co-operatives, worker-owned firms and municipal enterprises. See http://www.ncesa.org.

2 In addition, we include a description of a unique educational institution, the Dutch Science Workshops, which is based in the Netherlands (see part four, below). We find this case to be an interesting example of intersectoral co-operation and partnership-building between academia and the business community.
This report assesses each case’s performance and draws relevant lessons in five overarching areas: job creation, scaling-up, replication, financial sustainability, and responses to globalization. The following key questions have guided the analysis:

**How and to what extent do the cases move to scale over time?**
The literature suggests that there are many different paths to scaling-up, as well as a number of factors that contribute to successful efforts to scale-up. In what ways and to what extent have the cases in our sample achieved significant scale? What moving-to-scale strategies have they pursued, and do they exhibit criteria necessary for organizational sustainability? What do their experiences teach us regarding the question of whether certain factors or conditions lead organizations to follow particular approaches to scaling up?

**Are the cases replicable?**
A related question concerns the models’ potential for transferability and replicability. What are some of the key ingredients for successful replication? To what extent does the success of the profiled cases derive from their being location or culture specific, as opposed to their being composed of “social inventions” that can be adapted to other locations and cultures?

**What capacity do the cases have to generate productive employment?**
In the case of worker co-operatives, a lively debate surrounds the issue of whether the model tends to follow job creation goals or instead limits enterprise expansion and perhaps even downsizes in good economic times in order to benefit the existing workforce. Do the employment growth records of the co-operatives in our sample help illuminate this debate? A key question, moreover, is whether the demands of capital accumulation necessarily impose size limitations on the co-operative form. How do co-operatives respond to this scale-related issue?

Concerning the non-governmental sector, many development organizations have undertaken commercial or economic activities in the last few decades in order to achieve

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However, as this case does not appear directly to promote the building of community assets—understood primarily as business or capital investment that creates jobs and enhances community economic stability—we do not discuss the case’s features in the main analysis section of the report.
a certain level of financial independence and sustainability. Do the NGOs that we profile shed any light on the job creation potential of this strategy? Finally, regarding micro-credit programs, most evaluations focus on whether the programs efficiently and effectively increase the target population’s access to finance. To what extent do such programs serve other goals, such as employment generation?

**To what extent do the cases achieve financial sustainability?**

As noted, NGOs increasingly have undertaken revenue-generating activities as a way to increase their levels of self-financing. To what extent have the cases in our sample established an independent means of support enabling them to pursue their social missions? As for microfinance programs, the question of sustainability is framed by a debate about whether commercialization enhances efforts to alleviate poverty. Do the cases here provide evidence on whether subsidized programs can operate efficiently and cost-effectively, achieving depth of outreach and significant scale? Moreover, does a program’s institutional form have implications for financial sustainability?

Regarding co-operatives, the debate also turns on questions of efficiency and productivity: while critics claim that the co-operative form is inherently inefficient, supporters argue that co-ops may be more productive than conventional firms and that, in any event, the firms meet their financial needs through organizational innovations. What do the sample cases teach us about the possibility of co-op survival in the absence of outside support? What role does scale play in the firm’s effort to remain financially viable?

**How have the cases responded to globalization?**

Increasing global competition and rapid technological change present community- and asset-building efforts with both challenges and opportunities. The literature identifies a range of organizational responses to the pressures of globalization. What strategies have the sample cases pursued to survive, and even innovate, in the new competitive environment?

In sum, this report aims to document and understand how new and alternative forms of economic enterprise have developed, along diverse paths, into institutions that produce serious economic activity, spread asset ownership within the community, increase equity, achieve environmental goals, and promote member self-determination. We submit that the cases profiled here hold an abundance of insights and lessons for community-building endeavors throughout the world, including the United States.

The report proceeds as follows. We present our research methodology immediately below. In part two, we analyze the cases’ performance in the five areas outlined above (job creation, scaling-up, replication, financial sustainability and responses to globalization). In part three, we summarize the key lessons learned. Part four offers a “profile” of each case, presenting more detailed information on such aspects as background/history, major accomplishments, and present challenges. Finally, the reference section includes web addresses for each of the cases profiled.
METHODOLOGY

The Democracy Collaborative and the National Center on Economic and Security Alternatives (NCESA) conducted research for the present report in two stages. In the first stage, the research team surveyed the academic and popular literature to identify promising international community-building models. In all, the team identified approximately 150 cases, representing a diverse array of models, located in twenty countries. The team then selected thirteen cases to examine in depth, based on the criteria set forth in the introduction (above). The lead writer next developed a profile of each case (except for the Chinese Township and Village Enterprise case). In the second stage, the present researcher surveyed the current academic, evaluative, foundation and online literature in order to assess each model’s performance vis-à-vis the following criteria: job creation, scaling-up and replication, financial sustainability, and responses to globalization. This researcher analyzed the literature for relevant lessons and updated and edited the case profiles, adding the description of the Township and Village Enterprises.

In the final phase of the project, the Democracy Collaborative and NCESA will undertake a systematic dissemination program to reach practitioners, policy-makers, donors, the media, and others with a view to enlisting their interest in, and mobilizing their support of, such institutional approaches to asset and community building.

II. KEY LESSONS

In this part, we identify and analyze the sample cases’ organizational and institutional strategies for generating productive employment, moving to scale, undertaking replication efforts, achieving financial sustainability, and responding to globalization. In each area, we review the relevant literature and highlight the records of the cases, whenever appropriate.

1. SCALING UP

Each of the cases profiled in this report has achieved significant scale, and their experiences illustrate key lessons about the expansion process. Moreover, several of the moving-to-scale strategies that the cases have pursued also enable them to confront major challenges posed by globalization (see section five, below).

The most widespread understanding of the term scaling-up involves the movement from a small to a large impact. The term may refer more specifically, however, to the means of program or policy expansion (e.g., the replication, spread or adaptation of techniques and ideas), as well as to the ends of such expansion (the increased scale of impact) (Hancock 2003). A 2003 World Bank working paper on rural development noted the recent origin of most analyses of the scaling-up process, and the shortage, to date, of systematic comparisons of scaling-up experiences. Indeed, the paper
found that even “examples of scaling-up with sustained, large scale impact” were scarce (Hancock 2003: 6).

It is possible, nonetheless, to identify at least two major insights from the literature on scaling-up. First, there are a number of different paths to expanding program impact. Second, as programs pursue one or more of these paths, the appropriate emphasis is on organizational learning and building local capacity, rather than on following “blueprints” (Uvin, Jain and Brown 2000; Taylor 2001; Uphoff et al. 1998).

The customary approach to scaling-up involves quantitative expansion, whereby a program increases in size to cover more beneficiaries. This growth may occur organically, through a process of “spread,” or more self-consciously, as the program replicates its efforts over a larger geographical area (Uvin, Jain and Brown 2000). Yet, without becoming larger organizations or even directly reaching more people, programs also may move to scale by expanding their activities and/or pursuing institutional change. For instance, in a process of “functional” scaling-up, programs increase the number and the diversity of the activities that they undertake (“horizontal integration”), and/or they add complementary upstream or downstream activities (“vertical integration”). In addition, following an “indirect” approach to scaling-up, programs broaden their impact by altering the behavior of other actors and spurring institutional change, through such strategies as advocacy, training, joint venturing, and integration (ibid.).

Underlying all successful attempts to move to scale are efforts to enhance organizational sustainability (“organizational scaling-up”) (Uvin and Miller 1996). Organizations can work to ensure their future growth and viability by diversifying their funding sources, increasing their degree of self-financing, improving their managerial and technical skills, promoting accountability and member participation, and creating mechanisms for organizational learning. Alvord and colleagues (2001) posit that successful social entrepreneurship initiatives must encourage this last element—systematic learning—if they are to operate on a large scale. Similarly, Uphoff et al. (1998) consider continuous learning by organizations to be the single most important criteria for achieving success and sustainability (see also Hancock 2003). They argue that programs operating in a learning mode are poised to achieve continual innovation and flexibility when they strive, on an ongoing basis, to identify problems, experiment with possible solutions, critically reflect on and evaluate outcomes, and revise procedures and strategies in light of those outcomes.

As Alvord et al. (2002) observe, building organizational capacity requires that organizations invest in their systems of management (e.g., financial and technical systems, leadership succession plans), staff development, and performance evaluation. Other key methods for achieving organizational learning include creating federative structures and spinning off independent organizations (“multiplication”) (Uvin et al. 2000; Uphoff et al. 1998). These latter methods are discussed in more detail below.

A related and important lesson for programs that attempt to scale-up and/or undergo replication, either within the originating country or abroad, is that innovations tend to spread successfully when the expansion occurs organically rather than mechanically (Taylor 2001; Uphoff et al. 1998). In the now discredited “cookie cutter” or “blueprint” approach to scaling-up, experts and officials select programs to replicate,
design the blueprints, and involve the community in a top-down fashion (Gonsalves 2001; Taylor 2001). By contrast, the continuous learning (“biological”) approach views successful programs as sources of broad lessons that must be adapted to local contexts through the participation of all the program’s stakeholders in the experimentation process. These stakeholders, who are networked to one another and to public and private actors, drive the program’s expansion, rather than outsiders and funders (Taylor 2001).³

Few studies appear explicitly to have addressed the question of which factors or conditions account for an organization’s choice of scaling-up strategy. An exception is Alvord et al.’s (2003) exploratory analysis of seven cases of successful social entrepreneurship, of which three (BRAC, Grameen Bank and SEWA) are profiled here. The authors hypothesize that the NGO’s choice of scaling-up strategy is related to its form of innovation. They identify three such forms: 1) building local capacity, as in the case of BRAC; 2) disseminating “packages” of services and technical resources, e.g., the case of the Grameen Bank; and 3) building local power movements, e.g., SEWA.

Regarding the first form of innovation, the authors observe that capacity-building programs tend to expand their impact by first developing a combination of activities that enhance client-group capabilities, and then expanding those activities to cover a wider range of client groups, with that particular combination of activities. Programs characterized by the second form of innovation, i.e., package dissemination programs, undertake the scaling-up process by developing services that easily may be delivered to individuals or small groups through the efforts of lower-skilled staff. Frequently, these programs enhance their impact by adding to the original package a range of follow-up, supplementary services. Finally, the movement-building initiatives focus on mobilizing their members for advocacy campaigns and building their alliances to influence the activities of key actors.

In the following subsections, we draw on the cases profiled in this report to offer examples of the quantitative, functional, indirect and organizational modes of expanding impact.

1.1 Evidence of Quantitative Scaling-up.

All of the cases profiled here have achieved significant scale, whether measured according to size of membership, number of staff, organizational output and/or business volume. Some of the cases have reached such magnitudes within relatively short time periods.

NGOs/Credit co-operative

Several of the NGOs have a population coverage numbering in the millions, while others generate revenues and have financial assets worth tens of millions of dollars:

³ In addition to the blueprint and biological models, Taylor’s (2001) scaling-up typology includes the additive and explosion models. According to Taylor, the former model is bottom-up in orientation, yet lacks a top-down enabling environment, and thus moves to scale too slowly. In contrast, the latter model moves to scale rapidly due to its heavily top-down orientation, but has unexpected consequences and is unsustainable.
BRAC. Thirty years after its founding, BRAC has become one of the world’s largest NGOs, registering a membership of four million women. BRAC works in 65,000 of the country’s 68,000 villages, covers a population of 78 million, has organized nearly 120,000 village organizations, and operates with an annual budget of US$196 million (at year-end 2003) (BRAC website). BRAC has expanded most rapidly since 1989, when it worked in only 4,000 villages and had a budget of $20 million (Abed and Chowdhury 1997).

Grameen Bank (GB). Having lent its first US$27 to 42 villagers in 1976, the GB to date has offered credit to 3.36 million borrowers and disbursed US$4.27 billion in cumulative loans. It works in 44,636 villages, operates 1,229 branches, and employs nearly 12,000 people (GB website).

SEWA. Now 31 years old, SEWA is India’s first and largest trade union of informal sector workers, with a total membership of 694,551 self-employed women and a population coverage of around one million (Alvord et al. 2002). Moreover, SEWA Bank is India’s largest microfinance institution in terms of business volume (Datta 2003).

SANASA. Since it’s revitalization in 1979, Sri Lanka’s thrift and credit union movement, known as SANASA (an abbreviation of the Sinhalese name), has grown to encompass more than 8,400 registered primary societies, with a total membership of around 854,000 and a total population coverage of over 3 million (SANASA website). In addition to providing one million members with savings and credit services, the federation also serves a significant (albeit undocumented) number of non-members and youth (Evans 2001).

Kagiso Trust (KT). Less than twenty years old, the KT has become South Africa’s largest, Black-led and indigenous NGO promoting Black economic empowerment and sustainable community development. Since its inception, the Kagiso Development Trust (part of the KT-Group) has awarded over one billion Rand in grant funds to more than 700 development projects in the fields of training, health, education, small business development and agriculture. Several of KT-Group’s subsidiary companies are listed on the Johannesburg Stock Exchange. By the end of 1997, KT had an estimated net value of $40 million (Waddell 2000).

Fundacion para la Educacion Superior (FES). Established in 1964 as a university foundation to help the Universidad del Valle in Cali, Columbia meet its cash flow problem, FES has since become Colombia’s most renowned private foundation and the owner of a network of financial service businesses. In its first three decades, FES distributed over US$50 million in grants to nongovernmental organizations; by 1998, its assets were worth nearly $400 million (Civicus World 1998).

Worker and Consumer Co-operatives

Conventional wisdom holds that the nature of the cooperative is to remain small in scale, so as to encourage participation and democratic decision-making (see Smith 2001). Yet both the consumer and labor cooperatives sampled here have reached impressive scale, arguably without sacrificing democratic process. Various organizational design features and policies support such growth, such as network and federated structures, a policy of encouraging mergers, and a system of group purchasing.
For instance, both MCC and La Lega have built cooperative networks and “second level” cooperatives as support structures for their member co-ops, allowing the enterprises to achieve economies of scale and scope, and thus to expand. Each system, however, has expanded in different ways. Mondragon’s system of grouping individual co-ops within a larger corporate structure has enabled it to maintain the relatively small size of its individual co-ops, and thereby enhance its efforts to promote participation. By contrast, the La Lega co-operative network has actively encouraged its member co-ops to merge, resulting in a number of very large, individual cooperatives (Smith 2001). As Huet (1997) claims, however, size need not undermine the democratic process; as the case of the Italian cooperatives shows, even very large cooperatives with thousands of members “can retain a good deal of democratic involvement.”

Several of the consumer cooperatives, such as Co-op Atlantic, Co-op Kobe and the Seikatsu Club, also have relied on a federated corporate structure to support their growth (see below). Moreover, the Japanese cooperatives, some of which have grown very large, have managed to combine cooperative growth with active member participation by adopting a traditional form of social relations (the Han) as the system’s core organizational unit. Each Han consists of five to ten neighbors who join together for mutual assistance and group purchasing of cooperative goods. The Han system enables the co-op to increase organizational efficiency and member participation while stimulating organizational growth, largely by encouraging Han members to introduce the cooperative form of social relations to their non-member neighbors (Matsuoka et al. 1994).

As the evidence shows, the worker and consumer cooperatives in our sample have achieved massive scale:

**La Lega.** Italy’s largest co-operative network, La Lega (or Legacoop) covers more than 17,000 cooperatives: approximately 5,000 worker co-ops, 3,000 agricultural co-ops, 2,000 consumer co-ops, 5,000 housing co-ops, 2,000 mixed-form co-ops, and hundreds of specialized co-ops in such fields as transportation and fishing (Smith 2001). By 2002, La Lega’s total membership exceeded 6 million people, or slightly more than 10 percent of the Italian population. Of these members, 4.6 million belonged to La Lega’s consumer co-ops (Philip 2003). La Lega’s turnover in 2002 was €38 billion.

**Mondragon Cooperative Corporation (MCC).** Now the largest corporation in the Basque region and the seventh largest in Spain, MCC is a network of 218 companies, approximately half of which are cooperatives. Thirty-eight of MCC’s industrial plants are located in fourteen countries around the world; MCC intends to increase the number of its plants abroad to 60 by the year 2005. Between 1977 and 2002, MCC’s workforce quadrupled, reaching 68,260 workers by the end of 2003. The network had total sales in 2003 of €8 billion.

**Japanese Consumers’ Co-operative Union (JCCU)/Co-op Kobe and Seikatsu Club Consumers’ Co-operative Union.** Japan’s consumer co-operative movement—

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4 As an officer of the largest Italian co-operative federation argues: “It would be a mistake to make a generalization that the bigger the co-op the less participation. [A 2,500 worker co-op in Bologna] has more than a few branches and you can create smaller groups of members that then participate in meetings and are delegates who report on their findings” (Huet 1997: 41).
the world’s largest—is composed of 572 member co-operatives with a combined individual membership of 22,016,000, or thirty percent of all Japanese households. Nearly 6 million individual members participate in 1.8 million Han groups (JCCU website).

Established in 1921, Co-op Kobe has grown to become Japan’s largest co-operative, with over 1.45 million members in 2002. Formed in 1965, the Seikatsu Club is an association of 22 consumer cooperatives and 8 associated companies, with 250,000 individual members. Although smaller in size than other JCCU members, Seikatsu ranks high in terms of investment and purchases by individual members, with annual sales of Y73 billion (as of March 2002).

**Co-operative Group.** The United Kingdom’s—and the world’s—largest single consumer co-operative, the Co-operative Group has over three million individual consumer members and 144 corporate consumer members, which in turn represent millions of consumer members nationwide. Founded in the 1840s with a single store in Rochdale, the Co-operative Group now operates over 1,700 food stores, over 3,000 retail outlets, and 29 department stores, and employs over 75,000 workers. Several of its component businesses also have attained massive scale—for instance, Travelcare is the UK’s largest independent retail travel group, Funeralcare is its largest funeral director, and National Co-operative Chemists is its fourth largest pharmacy operator. At year-end 2003, the Co-op Group had sales of over £8 billion and consolidated operating profits of £327 million.

**Co-op Atlantic.** Canada’s second largest regional co-operative wholesaler, Co-op Atlantic serves 171 member co-operatives and 219,000 member-families in the Maritime Region.

**Local Government Enterprise**

Neither state-owned enterprises, private enterprises, nor worker/producer co-operatives, China’s **Township and Village Enterprises (TVEs)** are industrial (typically rural) enterprises that are owned by the community and controlled by the local township or village government (Che and Quian 1998).⁵ Blending private entrepreneurship and public ownership, this hybrid institution has had stunning achievements in the areas of output, employment, export growth, productivity, technology upgrading, and sustained profitability (Harvie 2000). For instance, from 1980 to 1996, TVEs expanded in number from 1.4 million to 23.4 million, and their output grew at an average rate of 21 percent per year between 1978 and 1995. By 1997, TVEs’ share in national total export reached 46.2 percent. TVE employment more than quadrupled over the post-1978 reform period, growing from 30 million workers in 1980 to 135 million in 1996 (Perotti et al. 1996), and providing an additional 100 million new jobs in the rural sector (Harvie 2000).

Although the TVE sector experienced a slowdown in the growth of output and employment in the 1990s, its growth rate remained high at the end of the decade. Nonetheless, China has begun a process of privatizing its rural industrial enterprises, with the vast majority of TVEs undergoing some form of ownership reform between 1995 and

⁵ The closest US analogue to the TVE is municipal enterprise, particularly in the latter’s nontraditional form, i.e., involving provision of non-public goods (see Imbroscio et al. 2003).
2000 (Dong et al. 2004). As scholars note, however, privatization may “occur in many ways” (Ho et al. 2003). While empirical studies of this relatively recent phenomenon are just emerging (Dong et al. 2004), it appears that many small, marginally profitable TVEs have been privatized in the conventional sense: through sales to private investors. However, of the larger and more profitable TVEs, most have been restructured as shareholding or joint-stock co-operatives, in which ownership is transferred to enterprise insiders (managers and workers), as well as local governments and sometimes outside equity-holders (Sun 2002). The future status of this hybrid form, which combines collective and private ownership, is the subject of much debate, revolving around whether it is a transitional form of ownership that inevitably leads to privatization, or a long-term, viable arrangement on its own (Vermeer 1999). Some scholars argue that the TVE’s ability to adapt to changing economic circumstances (discussed in section five, below) will enable this entity to survive as an alternative form of ownership.

1.2. Functional Scaling Up

Uphoff et al. (1998: 205) contend that a program’s ability to move beyond its initial focus area—a process that they call diversification—constitutes a “critical measure of success” and a “key factor contributing to sustainability.” Indeed, several studies of rural organizations have found that multifunction organizations were more successful than single-function ones, even when controlling for number of functions (Uphoff et al. 1998). The integration of multiple activities can enhance program effectiveness and efficiency by strengthening organizational capacity, particularly when the choice of activities is driven by local demand rather than supply (e.g., new sources of funding). Integration also can promote the organization’s sustainability when the new activities improve the economic positions of the organization’s clients or members, as well as its own financial self-sufficiency (Uvin and Miller 1994).

As noted, organizations may engage in horizontal or vertical integration. The former involves adding a new area of activity to an existing program, e.g., a health service to an income-generation program; the latter involves adding an activity related to the same chain of activities, e.g., a credit and savings instrument to a poverty alleviation program. Uvin et al. (2000) observe that most successful NGOs tend to diversify their activities in the early stages of their development. As they mature, however, they often focus on those activities that they perform best, thus scaling up impact by taking on fewer activities and perhaps shedding earlier ones.

Each of the cases studied here has broadened its impact by taking on new functional areas of activity, and several have added upstream and/or downstream activities.

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6 Inasmuch as managers and workers hold a majority of shares in the shareholding co-operative (SHC), this form resembles employee ownership in the West (Sun 2002). However, there are a number of important differences between the forms: e.g., most of the SHC shares are purchased and carry voting rights, and most SHCs have issued employee shares only once, upon their creation (Vermeer 1999).

7 Moreover, as Uvin and Miller (1996) explain, vertical integration may occur in a downstream manner, e.g., when a soup kitchen links to a food purchasing and distribution network; or in an upstream manner, e.g., when a program to assist artisans establishes a retail and marketing outlet for their products.
Moreover, in light of the growing importance of civil society in political and economic development, it is noteworthy that several of the development NGOs have emerged as civil society support organizations. In particular, BRAC, FES and Kagiso Trust have become involved in institution-building activities, assuming such support functions as technical assistance, management and front-line worker training, and capacity-building (Brown and Kalegaonkar 1999).

**NGOs/Credit Co-operative**

**BRAC.** Initially providing emergency post-war relief, BRAC expanded to offer credit and rural development assistance. It now offers an array of social and economic programs, including legal aid, oral rehydration therapy, education, employment and income generation, and commercial ventures. It also has assumed the role of a support organization, offering such services as training, management assistance, and information dissemination (Brown and Kalegaonkar 1999).

**Grameen Bank.** GB likewise has moved beyond its initial activity—credit provision—to offer housing loans, health care, life insurance, education and scholarships, and the myriad other services that the Grameen Family of Enterprises provides, in such areas as agriculture, textiles, fisheries, communications and business development.

**SANASA.** While SANASA’s initial focus was savings and loans provision, it has pursued its vision of becoming a socio-economic force in Sri Lankan society by diversifying its activities within four key areas (the “four pillars”) of development: banking, production and marketing, insurance, and construction services (communications represents an emerging fifth pillar). Specifically, SANASA has created the SANASA Development Bank, the All Lanka Mutual Assurance Organization, the SANASA Producer Consumer Alliance, Ltd., the Community Infrastructure and Resource Development Services, and the Rural Agency Post Office Services. Alongside these national efforts, local clusters of primary societies have opened brick-making factories, carpentry shops, and retail outlets for local goods and produce; offer English and computer classes; operate paddy mills; and purchase agricultural inputs in bulk (Fischer et al. 1999).

**SEWA.** SEWA initially focused on improving working conditions for its members by applying pressure to local police and policy makers. It has since grown to offer its members services in the areas of banking, insurance, education, skills and leadership training, health care, child care, research and communications, and housing.

**Fundacion para la Educacion Superior (FES).** FES was established in 1964 as a university foundation designed to mobilize funds for education and research. In 1975, the government recognized FES as a “commercial financing company,” which permitted it to seek resources in the capital market, make loans, and thereby accumulate capital (Civicus World 1998). Soon thereafter, FES expanded its mission to include the promotion of social development activities, and it began investing its profits in social programs in six areas: health, education, economic and social development, children and youth, the environment, and civil society support. In addition, FES has supplemented its civil society support activities with various technical assistance functions, such as networking and capacity-building services (Brown and Kalegaonkar 1999). By offering
such services, FES seeks to ensure that grantees put their financial support to the best possible use.

**Kagiso Trust (KT).** Initially founded as a conduit of European Community funds to the anti-apartheid movement, KT dedicated itself to the economic empowerment of the newly enfranchised, but under-resourced, Black majority when apartheid ended. Since then, it has pursued a financing strategy that enables it to promote social development through the activities of its affiliated enterprises, namely its grant-making institution, business consultancy, small business development vehicle, and strategic investment company (forming the KT-Group). KT has prioritized the goals of building the capacities of community organizations and helping create and sustain a vibrant civil society sector for the benefit of the country as whole.

**Worker and Consumer Co-operatives**

**Co-op Atlantic.** With its origins in the agriculture sector, Co-op Atlantic’s core activities are distributing food products and general merchandise to member co-ops, and serving member farm co-ops through feed operations and related agricultural services. Over the years, Co-op Atlantic has become a business leader in such areas as petroleum and real estate activities, including housing co-op development and management, land and subdivision development and non-profit senior citizens’ housing. It also provides procurement, merchandising and marketing services, and financial management support to all of its operations and member co-ops.

**Co-operative Group.** Founded to provide safe, affordable food to members, the Co-operative Group has expanded its operations from agriculture and food retail to banking, insurance, travel, funeral, pharmacy, dairy manufacturing, auto retail, engineering and building services, and property and business management services.

**Seikatsu Club Consumer Co-operative’s Union (SCCCU).** Established as a buying club for families to purchase affordable, pure milk, SCCCU has evolved into a movement “concerned with building alternative production, consumption, social welfare, and activist networks” (Morrison 1995: 156). It has spawned producer co-operatives, social welfare organizations, an activist political network, an environmental program, and a program to support world peace.

**Mondragon Co-operative Corporation.** From its beginnings as an enterprise producing oil stoves, Mondragon has diversified to provide a range of products, including domestic appliances, machine tools, and automotive components. It also offers banking, insurance and social welfare services, develops housing, operates research and training institutes, including a university, and runs Spain’s largest supermarket chain.

1.3 **Scaling-Up Indirect Impact**

Social change organizations can expand their impact, not only by scaling-up their direct service activity, but also by influencing the behavior of government, market and civil society actors, a process known as “mainstreaming” (Uvin, Jain and Miller 2000). In addition to pursuing the standard influence strategies of political lobbying and advocacy, organizations also may seek to encourage government agencies or private sector entities to take over existing or new activities (“integration”); collaborate with
government or business to carry out projects (“joint venturing”); and provide training, research and advice (“knowledge creation”).

Several of the cases profiled here have engaged in one or more of these indirect scaling-up strategies:

**SEWA.** SEWA exemplifies the classic advocacy approach to expanding impact. As part of its dual strategy of struggle and development, it organizes women workers to demand policy changes at the local, state, national and international levels. For instance, SEWA successfully lobbied the following actors: local authorities to stop the eviction of street vendors; state authorities to recognize self-employed women as “laborers;” federal authorities to create a National Commission to focus on self-employed women; and international union authorities to include home-based work on the ILO agenda. SEWA participates in numerous joint ventures, including several initiatives with the Gujarat state government to provide self-employment opportunities for poor women. SEWA also pursues a variety of knowledge creation activities. For instance, it co-founded a program to conduct research about self-employed women.8

**SANASA.** SANASA’s national federation similarly pursues advocacy work, lobbying both the government and private actors, such as academic and banking institutions, to defend SANASA’s independence, strengthen its enabling environment, and win support for increased educational and financial opportunities for the poor. For instance, it successfully lobbied the government to reform the bylaws governing cooperatives, and it partners with a number of international organizations, provided that they respect SANASA’s policy of membership control.

**Seikatsu Club Consumer Co-operative Union (SCCCU).** SCCCU has sparked a successful women’s social and political movement, the Seikatsusha Network movement, which organizes to elect women members to local government. Currently, the movement has 141 representatives at the local assembly level, who advocate for stronger consumer and environmental protections, a more inclusive social welfare system, and gender equality (SCCCU website; Gelb and Estevez-Abe 1998).

In addition, the SCCCU undertakes numerous “exchange and solidarity activities” with cooperatives and NGOs around the world to promote its environmental and world peace agendas. For example, it has partnered with the National Credit Union Federation of Korea and has formed a three-way partnership with a Korean women’s group and a Taiwanese “homemakers’ union.”

**Kagiso Trust(KT).** While KT’s commercial investments provide an independent income stream for its social development projects, the group’s role as a corporate shareholder also helps advance the organization’s empowerment goals. Specifically, KT invests in private companies with the aim of influencing their human resource policies and business practices (Kalegaonkar and Brown 2000). In discussing the social impact of its investment arm (KTI), KT states:

KTI carries the ethos and values of KT into the boardrooms of corporate South Africa and insists on reflecting the demographics of the South African society in

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8 This program is the Women in Informal Employment: Globalizing and Organizing (WIEGO), which SEWA helped establish in conjunction with UNICEF and Harvard University.
employment. It promotes equity, justice, and fairness in the business and labour sector. Some of the companies which were predominately white have changed over time since being associated with KTI (www.kagisotrust.com).9

Kalegaonkar and Brown (2000) suggest that, through its efforts as a shareholder and owner of socially-oriented businesses, KT has the potential to effect sustained social change.

KT also pursues a financial strategy based on partnership-building with the business community, government, donors, and other NGOs, and has undertaken numerous joint ventures with national and international companies. For instance, it created Kagiso-COWI, in partnership with a Danish company, to provide public and private clients with consultancy services in the areas of the environment and development planning.

La Lega. Italy’s largest umbrella group for cooperatives, La Lega promotes the interests of the cooperative sector at all levels of government, and conducts research to measure and influence public opinion about co-operatives. For example, its alliances with political parties, trade unions, small businesses, and other cooperative associations succeeded in pressuring the state to pass supportive legislation (Ammirato 1996).

BRAC. BRAC engages in a number of collaborative ventures with public and private partners. For instance, it assists over 230 local NGOs in managing non-formal primary schools. It also jointly operates the Income Generation for Vulnerable Group Development program with the government of Bangladesh and the UN’s World Food Program, with the aim of helping the long-term poor.

Grameen Bank. GB also works with other actors to expand its services. For example, it partnered with a Norwegian company and other international investors to create Grameen Telecom, which has the potential to become the world’s largest wireless phone program.

1.4 Organizational Scaling-up

The literature makes clear that developing organizational capacity and systems for learning is a key driving force in successful efforts to scale-up (Hancock 2003). Alvord and colleagues (2002: 16), for instance, observe that “the larger the organization, the more resources it tends to devote to organizational arrangements. Developing operational capacity is associated with building larger and more sophisticated core organizations for some kinds of scaling up.” As the researchers note, well-established strategies for building organizational capacity include creating management and performance evaluation systems and promoting staff development. Indeed, three organizations that they study—Grameen Bank, BRAC, and SEWA (also studied here) pursue such strategies. For instance, all three have “invested heavily in management systems—such as financial and technical systems, clear divisions of responsibility, and leadership

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9 In 2000, Kagiso Media Ltd., a for-profit subsidiary of KTI, received the “Top Black Empowerment Performer Award” on the Johannesburg Stock Exchange, in recognition of its “pioneering empowerment shareholding representative demographics and a programme for skills transfer and development into positions of authority” (http://www.atta.co.uk/member_detail.aspx?AT_ID=463).
succession plans—that are critically important to running large agencies” (ibid.). The three organizations also support staff development. For instance, in addition to promoting from within, BRAC operates a Training Division, which has created 16 residential Training and Resource Centers and two Centers for Development Management, which offer courses in such areas as social awareness education, leadership, and organization and management. The SEWA Academy likewise offers training, literacy, research and communication services to develop the leadership and skills of its staff and members. Regarding performance evaluation, BRAC operates a Research and Evaluation Division that provides impact information for all programs and monitors program activity.

The following subsections discuss two other important, yet less well-documented methods for achieving organizational learning, while enhancing organizational access to markets, raw materials, technology, credit, training and the policy-making process: developing a federative or associative structure and creating spin-offs.

1.4.1 Federative Structure

Evidence suggests that the most effective type of organization is a federated or “nested” one, in which small base-level groups are linked horizontally to one other and vertically to higher level units (Uphoff et al. 1998; Fung and Wright 2003). Several studies have shown that a multi-tier structure is “more likely to be successful than larger, one-tier associations at the local level,” and contributes more to rural development (Uphoff et al. 1998: 71). In the case of cooperatives, studies show that networks and support structures play a critical role in firm growth and sustainability (Smith 2001), as inter-firm collaboration generates economies of scale and grants firms access to “finance, managerial expertise, [and] entrepreneurial talent” (Ammirato 1996: 57).

As the literature reveals, federated structures combine the benefits of small groups—lower transaction costs, easier monitoring of members and hence reduced free riding, greater opportunities for grassroots participation and heightened accountability—with the advantages of scale and improved coordination (ibid.). In particular, a structure of “learning by monitoring” or “decentralized coordination” can lead to more effective problem solving by encouraging local units to experiment and innovate, while enabling higher-level units to facilitate the exchange of information, diffuse best practices, monitor for quality and opportunistic behavior, enforce discipline through sanctions, and distribute resources to foster efficiency and equity across units (Sabel 1994; Fung and Wright 2003).

Several of the NGOs and cooperatives studied here have created well-functioning, federated structures of organization:

SANASA. SANASA’s three-tier structure—primary thrift and credit-co-operative societies at the local level, district unions composed of primary society groupings at the intermediate level, and an apex federation—arguably qualifies as an “ideal type of ‘nested’ organization in which each level is an extension upward of lower levels” (Uphoff et al.1998: 69). SANASA’s key functions are organized as follows. The primary societies directly provide credit, lending and social welfare services to both members and nonmembers. As Hulme and Mosley observe, “…SANASA has genuinely
institutionalized itself at the village level, and its primary societies have an autonomous capacity to function (albeit on a reduced scale) without the higher tiers” (quoted in Fischer et al. 1999: 20). At the intermediate level, the district unions offer onlending services to primary societies, as well as monitoring, business planning support, and education and training. At the apex level, the federation provides district union members with education in co-operative principles and training in financial management, banking procedures and leadership skills; these members in turn train primary society members. The apex federation also lobbies government and regulatory agencies to improve the cooperative sector’s enabling environment, as well as distributes development funds from donors to infrastructure and education projects. Finally, it provides for interlending between districts, and assists the formation of new societies in poorer areas, which diversifies membership.

SANASA’s founder, P.A. Kiriwandiya, attributes the dynamic growth and development of SANASA’s primary societies to this federative structure, claiming that it has helped transform an assortment of “isolated and small-scale” savings clubs into a “people’s organization” (Uphoff et al. 1998: 64-65).

**Mondragon Cooperative Corporation (MCC).** One of MCC’s ten basic principles is inter-cooperation, which occurs at three levels: cooperation among member co-ops; cooperation among divisions or zones (groups of co-ops); and cooperation between Mondragon and other movements, as well as other cooperative and non-cooperative firms (MacLeod 1997). MCC’s three-level structure, linking the individual cooperatives, the divisions, and the General Congress, prevents isolation among co-ops, creates economies of scale and scope, allows for the development of uniform quality standards across firms, and establishes a “knowledge link” that helped build the cooperatives in the first several decades of their existence (Clamp 2000).

Inter-cooperation enables MCC to offer unemployment insurance through risk pooling; transfer workers across cooperatives to meet demand and avoid layoffs; promote the formation of new co-ops; undertake joint business and social development projects; and form research, training and financial support organizations (Smith 2001). MCC’s financial group, which includes the Caja Laboral Popular (credit union), supports the growth and development of member co-ops, enabling MCC’s asset base to grow even during economic recessions.

**La Lega.** The primary objectives of the La Lega cooperative network are to support cooperative development and diffuse cooperative values throughout the network and the larger society (Smith 2001). The network—participation in which is voluntary and requires payment of member dues—links individual member firms, autonomous regional associations, sector associations and consortia, and a national association that provides services to its members and engages in advocacy and research. The La Lega network plays the role of a traditional business association, coordinating strategies for the entire cooperative sector. It also serves as “watchdog,” ensuring that all members meet the network’s quality standards (Ammirato 1996; Smith 2001). La Lega’s promotion of intersectoral trade among cooperatives creates a “co-operative market” that assists cooperative growth (Ammirato 1996: 307). In addition, the network provides an internal financing mechanism (FINCO-OP), similar to Mondragon’s Caja Laboral. To maintain
system cohesiveness, La Lega employs interlocking directorships across enterprises. As Smith (2001) argues, such networks are a necessary condition for the innovations that help both Mondragon and the Italian cooperatives to thrive; moreover, without network advantages, the cooperatives are unlikely to succeed.

**SEWA.** Recognizing that organizing at the grassroots level is a necessary but insufficient strategy for achieving long-term, sustainable change, SEWA has created a wide range of federations and associations that link its members, “through their primary organizations, to the larger economic structures,” thus increasing their “access to markets, to training, to technical inputs and to policy making” (SEWA website). Approximately sixteen federations meet members’ needs in such areas as savings and credit, housing, child care and marketing. SEWA Bharat and the SEWA Co-operative Federation are discussed below in the replication and job creation sections, respectively. Other major federations include SEWA Gram Mahila Haat—composed of cooperatives, village-based producers’ groups from nine districts, and district-level associations—which provides marketing assistance to rural producers; the Kutchcraft Association, composed of 101 artisans groups and 61 savings and credit groups, which helps women preserve and promote their traditional craft skills; the Gujarat Mahila Housing SEWA Trust, which helps member organizations promote the housing needs of its members, while linking with the larger housing movement at the national and international levels; and the Ahmedabad District Women’s Savings and Credit Association, which joins together 274 savings and credit groups, 40 dairy cooperatives, and a health worker’s cooperative providing health care and insurance services to association members.

**Co-op Atlantic.** Co-op Atlantic is the wholesaler for the network of consumer cooperatives in Atlantic Canada, and functions as a second-tier cooperative, providing expertise and services to its member co-ops. Co-op Atlantic’s retail/wholesale system is composed of nine operating divisions: agriculture, finance, food merchandising and distribution, general merchandise, human resources and corporate affairs, information technology, marketing, real estate and petroleum, and retail operations.

**Seikatsu Club Consumers’ Co-operative Union (SCCCU).** In 1990, the Seikatsu Club Consumers’ Co-operative transformed itself into the SCCCU, an association of 22 consumer co-operatives, active in fifteen prefectures of Japan, as well as eight associated companies, such as a milk factory. The SCCCU “carries out development, purchasing, distribution, and inspection of consumer materials (food, general daily goods, clothes, publications), operates a mutual assistance fund, and publishes PR and ordering information for pre-order collective purchase” (SCCCU website). In addition, through committees and projects operated by members and staff, the movement addresses a range of environmental issues, such as the presence of genetically modified foods, which the SCCCU now bans from member stores.

**Co-op Kobe.** Co-op Kobe is the lead co-op in the development of the “K-Net Co-operative Federation.” Launched in 1997, the federation includes twelve other cooperatives in the Kobe region. It is designed to achieve economies of scale through bulk purchasing, as well as expand networking, improve management capacity, and increase membership and sales through information sharing about store development and operations.
1.4.2 Spin-offs

An important path to organizational scaling up involves spinning-off independent subsidiary organizations through a process of decentralization, often referred to as multiplication (Uvin et al. 2000). Decentralization can enhance the original organization’s sustainability, reach, and capacity to learn and innovate by reducing and simplifying overall management tasks; keeping central staff lean and flexible and thus better able to respond to opportunities and local demand; increasing communities’ access to program services; creating new local institutions and enlarging the network of organizations providing support services; cultivating local leadership; and ultimately promoting “institutional and intellectual diversity” (Uvin et al. 2000: 1416; Uphoff et al. 1998).

BRAC. BRAC has encouraged the creation of affiliated, yet independent organizations, such as the Rural Enterprise program, the Research and Evaluation Division, and the Rural Credit Program (Uphoff et al. 1998). BRAC’s guiding philosophy stresses continuous learning and organizational flexibility, and the NGO prides itself on maintaining a lean central staff in order to focus on its voluminous field staff. The organization actively supports staff who leave to form new organizations, “believing that the NGO sector will be stronger for having more centers of initiative” (ibid. 98).

Moreover, BRAC has created a number of commercial ventures, some of which have developed into independent companies, with BRAC as a shareholder. These include BRAC Industries (providing cold storage), BRAC Services (hospitality), Delta BRAC Housing Finance Corporation, and the BRAC Mail Network.

Grameen Bank. The GB has spun off various projects that have attracted donor interest by creating several companies as separate legal entities and loaning the donor funds to the new companies as start-up capital. These independent affiliates include the Grameen Fisheries Foundation, the Agriculture Foundation and the Krishi Foundation, which oversees the GB’s irrigation project. The GB also created an internal, “social advancement fund” by aggregating the interest on all the grant money that it received from donors. The GB converted this fund into a separate company, Grameen Kalyan, which undertakes social assistance activities among GB borrowers, such as education and health promotion.

Finally, the Grameen Family of Enterprises (or Grameen Network) is comprised of seventeen companies, all independently owned and operated. They include an internet services provider, a telecom company, a venture capital provider and a textile company.

SANASA. In its effort to move beyond credit to other development activities, SANASA created several “stand alone” corporations: ALMOA, a mutual assurance organization; SANEPPA, a producer-consumer alliance; SDBL, the development bank; CIARD, a community infrastructure construction company; and RAPO, a rural post office service. The shareholders of these companies are cooperatives from all three tiers of the movement’s federative structure. SANASA chose this particular corporate legal structure, rather than one in which the federation served as the sole shareholder, in order to promote the movement’s democratic character (Fischer et al. 1999).
SEWA. SEWA’s independent affiliates include the SEWA Bank, the Community Health Program, Video SEWA, SEWA Polytechnic, the SEWA Trade Facilitation Centre, and the various vendor, service and artisan cooperatives. As Uphoff and colleagues (1998: 98) observe, SEWA’s decentralization gives it a “diversification and depth of leadership that permit it to carry on despite weaknesses in any particular area.”

Fundacion para la Educacion Superior (FES). Through its social development activities, FES created a Leadership Institute in 1990 to promote creative leadership based on ethical and democratic principles. Now an independent NGO, the Institute conducts leadership training programs for other NGOs, the educational sector, youth, private businesses and government.

Kagiso Trust (KT). The six entities comprising the KT-Group—Kagiso Trust Development, Kagiso Trust Investment, Kagiso Trust Enterprises, Kagiso Trust Consultancy and now Kagiso-COWI Consultancy—were all initially established by KT and then spun off as independent affiliates. In part, KT was motivated to undertake this particular organizational arrangement because it faced challenges to its credibility, which stemmed primarily from its pursuit of “intersectoral co-operation,” especially with powerful business interests (Kalegaonkar and Brown 2000). That is, certain parties charged that KT was becoming co-opted by these interests and was “losing its connection with the poor black communities as it adopted business-like strategies of economic development” (ibid. 15). Consequently, KT undertook measures to address the problem, including the formal separation of its for-profit enterprises from its socially-oriented endeavors.

Mondragon Cooperative Corporation. Particularly since its reorganization in 1991, MCC has pursued a strategy of internal venturing, with a number of spin-offs achieving full business unit status (Clamp 2000) (see Section 4.3 below). These new organizations include a group that operates Mondragon’s social insurance system (Lagon Aro), a legal and administrative group (Ularco), and a consumer durables group (Fagor).

2. JOB CREATION

Most of the cases profiled in this report have a significant employment creation potential. The cooperative model (both worker and consumer) has proven to be an especially effective vehicle for creating jobs, as well as for protecting productive employment and establishing community-based private enterprise in response to privatization. In addition, many non-governmental organizations have undertaken a range of commercial activities to finance their social development projects, as well as to create jobs, especially for disadvantaged populations. Finally, the form of local government enterprise unique to China, the Township and Village Enterprise, has been a remarkable engine of job creation.

2.1. Cooperatives

The United Nations estimates that cooperatives worldwide have 760 million individual members (compared with about 184 million in 1960), employ more than 100
million people, and secure the livelihoods of more than 3 billion people (ICA 2000). In a number of countries, including several in Africa, the cooperative sector is the second largest employer after the state. Cooperatives of all kinds have created over 13.8 million jobs in India, 5 million in the Philippines, 5 million in Europe, 280,000 in South Africa, and 90,000 in Ethiopia. Japan’s consumer cooperatives provide over 53,000 full-time jobs (and thousands more part-time jobs), while Britain’s largest co-operative (the Co-operative Group), employs more than 70,000 people. In 1999, Canada’s non-financial co-operatives employed nearly 80,000 workers, of which 75 percent were full-time (COPAC 2000). Moreover, while employment in Canada increased only 28 percent between 1984 and 1999, cooperative employment increased by 62 percent over the same period (Co-operatives Secretariat 2001).

Conventional economic theory predicts that, for various reasons, worker co-operatives will fail to expand. Workers, the theory goes, are risk averse and have limited time horizons. Since profits tend to be divided among workers rather than reinvested, expansion generally results in a significant and immediate decrease in return per member, with the chance of a relatively small increase in the future, thus minimizing incentives to expand (Huet 1997). Conventional theory also posits that workers will choose to lay off members in good economic times in order to maximize the returns of remaining members, the so-called “Ward effect” (Smith 2001). Members may prefer as well to limit enterprise expansion for fear that growth will weaken the cooperative’s democratic character and sense of community (Huet 1997). Finally, even if a cooperative decides to expand, it is constrained in its ability to generate sufficient equity investment: workers themselves have limited capital to contribute; the cooperative cannot “go public” to raise capital; and traditional financial intermediaries lack experience lending to cooperatives or else are reluctant to do so, particularly given the lack of a public market for the cooperative’s stock (Huet 1997).

An alternative view holds, by contrast, that cooperatives have the potential to create more jobs and raise productivity levels higher than capital-based enterprises, and that the level of cooperative formation is tied strongly to that of unemployment (Spear and Roger 1997; Abell and Mahoney 1988). In this view, cooperatives respond to unemployment not only by creating new jobs, but also by rescuing jobs from failing firms and remaining resilient during recessions. According to the International Labor Organization (ILO), cooperatives are able to generate employment because they have the organizational capacity to:

- generate economies of scale, by enabling independent entrepreneurs and informal sector workers to engage in joint production at reduced costs;
- create economies of scope, by facilitating specialization and division of labor processes;
- increase members’ bargaining power, by combining the supply and demand of their members;
- stimulate member participation, which reduces costs, improves effectiveness and promotes capital mobilization;
- enhance enterprise stability, due to risk sharing between members; and
• foster innovation, by encouraging members to learn from each other.¹⁰

The ILO asserts further that cooperatives create employment by serving as direct employers, by promoting self-employment through provision of technical assistance to members and communities, and by fostering indirect employment, through spillover effects.

Although the empirical literature does not settle the issue, a number of studies found that the cooperatives in question generated stable employment, often to a greater degree than conventional firms, and that job creation goals guided the cooperative firms’ decision-making (Bonin et al. 1993; Bartlett at al. 1992). Indeed, the Ward effect has never been observed in practice (Smith 2001). Regarding the question of capital accumulation, cooperatives have proven that they can overcome size limitations through a set of institutional responses that enable them to raise the capital necessary for expansion. These include mission-driven commitments to reinvest surplus and the development of such organizational and financial innovations as internal capital accounts; financial consortia specialized in lending to cooperatives; forms of quasi-equity finance; and spin-offs of successful ventures (ibid.).

The job creation records of some of the largest and most successful worker cooperatives provide support for the foregoing claims:

**Mondragon Cooperative Corporation (MCC).** Between 1976 and 1986, while the surrounding Basque Country lost more than 150,000 jobs, Mondragon created 4,200 jobs (Kasmir 1999, Whyte and Whyte 1991). During the recession of the early 1990s, the region’s official unemployment rose to 25%, yet Mondragon’s overall employment remained stable. Current data indicate that MCC employs 68,260 workers, of whom 49 percent were based in the Basque Country, 39 percent in the rest of Spain and twelve percent abroad (as of 12/31/03). One of the institution’s founding principles obligates it to reinvest its surplus in order to create new enterprises and increase total employment, thus orienting the movement outwards—to those in the community who need jobs—rather than solely inwards, to its members (MacLeod 1997). MCC accomplishes its job creation objectives by retraining workers in ailing cooperatives and transferring them to healthier ones, as well as by declining to replace retiring workers. Also, the movement’s cooperative bank, the Caja Laboral, provides the enterprises with technical and financial assistance to help them adjust to the changing competitive environment (Huet 2000).¹¹

**Italy’s producer cooperatives.** These enterprises likewise have an impressive record of job creation. Founded in 1886, the Italian Cooperative League, or La Lega, is the largest and oldest cooperative organization in Italy—and one of the oldest and largest

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¹⁰ See ILO’s Job Creation and Enterprise Development Program:

¹¹ Arguably, the MCC’s increasing use of temporary and permanent non-members—approaching 30% of the entire workforce—signals a “degeneration” of its job-creating mission and reveals a dualistic orientation (i.e., to protect a core of insiders at the expense of vulnerable outsiders). While many within the movement are troubled by this development, supporters feel convinced that “MCC employment policies are geared to protecting the employment status of members, not to ‘exploiting’ nonmembers to increase the profits per member” (Smith 2001: 74).
in the world. By 2002, the cooperatives belonging to La Lega employed 342,000 people (Philip 2003). In 2000, 80,000 of La Lega’s members worked for one of the network’s 5,000 labor cooperatives (Smith 2001). Emilia Romagna, which houses one of Europe’s most concentrated cooperative sectors, with approximately 30 percent of Italy’s cooperatives, had the third highest employment rate and the third lowest unemployment rate in 1996 (Amin 1999).

It is important to note that a key reason for the growth and strength of the cooperative sector is that the Italian constitution enshrines the goal of job creation: a 1992 law requires cooperative enterprises, considered non-profits under Italian tax law, to reinvest their profits for the creation of new employment, rather than distribute profits among current workers. In addition, cooperatives must contribute three percent of their annual profits to a special solidarity fund that finances the development of new cooperatives.

**Italy’s social cooperatives.** The Italian social cooperative movement provides added proof that the cooperative model is sensitive to problems of unemployment, social exclusion, and the decline of the social welfare system. These co-ops provide social services in the areas of health care, elder care and education, and create employment for certain disadvantaged groups, such as the mentally ill, the physically challenged and drug addicts. There were 4,500 such co-ops in 1998, up from nearly 500 in 1986. The “type A” co-ops, which deliver social services, employed 60,000 workers, representing approximately ten percent of total cooperative sector employment. The “type B” cooperatives, which aim to create jobs for the disadvantaged, employed 15,000 workers, nearly 50% of who had disabilities (Borzaga and Santuari 2000).

**Seikatsu Club Consumers’ Co-operative Union (SCCCU).** While Mondragon began with producer cooperatives and eventually opened consumer cooperatives, the Seikatsu Club took the opposite path, starting with consumer cooperatives and later forming worker/producer cooperatives. The Seikatsu network’s experience in launching Japan’s first women workers’ collectives highlights the potential for the cooperative model to combat unemployment and respond to the employment needs of its members, in this case, women in need of alternative employment opportunities (ICA 1995). For instance, middle-aged, middle-class Japanese women seeking to re-enter the labor force on a flexible basis traditionally lack job opportunities, and the worker collectives fill this gap by offering such women part-time employment (Marshall 2004). Over the last twenty years, Seikatsu members have started about 400 workers’ collectives, all worker-owned and administratively independent of the SCCCU. Employing 15,000 people, the collectives are engaged in such activities as food distribution, food preparation, catering, recycling, childcare and education.

In addition, the cooperative network has spawned a number of mutual aid cooperatives providing social services to members and the larger community. About 10,000 people throughout the Seikatsu Club movement are involved in providing home or institutional care for the elderly. The mutual aid cooperatives also provide care for the sick, the physically challenged and expectant mothers.

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12 This is due largely to constraints in Japanese tax law, which heavily taxes dependent spouses when they earn more than a fixed, relatively low level of income (Marshall 2004)
**Self-Employed Women’s Association (SEWA).** SEWA organizes women workers to achieve the twin goals of full employment and self-reliance by forming their own member-based, economic organizations. Through the joint action of unions and co-operatives, women pursue strategies of struggle and development in order to strengthen their bargaining power. Co-operative development in particular enables women to create alternative sources of work and assume the role of owners and managers, not just producers. As SEWA notes: “For self-employed workers who have no control over capital and other resources, and no economic security, co-operatives are a means of obtaining employment. At the same time, co-operatives strengthen the union and hence, the worker’s movement as a whole” (1997 SEWA Report, quoted in Datta 2000). Co-operatives enhance women’s self-employment opportunities by increasing their options for year-round employment; improving their skills through training; creating linkages with the market; and reducing their dependence on moneylenders, merchants, and landlords (Rose 1992).

SEWA began promoting co-operatives at its founding nearly 30 years ago, and in 2002 there were 89 such organizations, with a total membership of 41,393 workers. These include 55 milk co-operatives, with 8,000 members; twelve service co-operatives, providing health care/midwife services, child care, and wastepaper collection, with 2,000 members; eleven artisan co-operatives for weavers, bamboo workers, embroiderers, and other artisans, with 1,000 members; seven land-based co-operatives for tree growers and agro-forestry workers; and three vendor co-operatives for kerosene vendors and vegetable suppliers. The largest co-operative, SEWA Bank, has nearly 30,000 members. In 1992, SEWA formed an apex-level federation of women’s co-operatives, the Gujarat State Mahila SEWA Co-operative Federation, now a member of the National Co-operative Union of India. The Co-operative Federation aims to strengthen the development of women’s co-operatives and bring them into the economic mainstream, by offering training for members in capacity-building, accounting, and field-testing, as well as providing marketing services that open up members’ products to national and international markets. For instance, the Federation recently opened a vegetable shop at an Ahmedabad vegetable market in order to link vegetable growers directly with vendors, thereby reducing the share taken by exploitative middlemen. The Federation also is working to improve transportation between rural producers and retail vendors.

**The Co-operative Group.** The world’s largest single consumer co-operative, the United Kingdom’s Co-operative Group provides employment to over 75,000 people.

2.2 **Non-Governmental Organizations**

Several NGOs in our sample—both micro-credit organizations and a community development enterprise—seek to generate productive employment as an explicit element of their broader missions. Each is discussed in turn.

**Micro-credit Organizations**

All of the micro-credit programs profiled in this report recognize that access to credit is a necessary but insufficient tool for eradicating poverty and improving individual and community economic self-reliance. Efforts to increase local economic activity and
aggregate demand—as well as improve supply-side factors, such as members’ skills—are also essential (Hashemi 1997). As BRAC observes, “besides lack of access to finance, the two major constraints that have prevented the poor from improving their lives are the absence of self-employment opportunities and lack of skills to sustain those activities” (BRAC Annual Report 2002). Accordingly, successful programs pursue various strategies to increase employment and income generation opportunities, provide skills and technical training, increase agricultural productivity, establish distribution networks, develop infrastructure, and offer business production and marketing assistance.

Perhaps surprisingly, the relationship between credit provision and employment generation has been the focus of little systematic analysis (Wood 1997). Evaluations of program outcomes do not typically raise the issue of whether total employment increases in villages in which micro lending operates (see Khandker 1998; Mosley and Hulme 1996). Moreover, these evaluations tend to focus on the programs’ lending operations, as opposed to their other poverty alleviation efforts (despite the fact that their lending and development activities are intertwined) (McGregor 1998). Yet micro-credit programs like BRAC and the Grameen Bank have undertaken large-scale, non-profit and commercial development initiatives that seek to increase the wage employment and self-employment opportunities of borrowers and others within their communities. Most of the available information on these efforts’ job creation impact comes from the programs’ own documentation and from various descriptive reports, especially on specific subsectors, like sericulture. This evidence suggests that the NGOs generate a significant number of jobs, as the following descriptions suggest.

Bangladesh Rural Advancement Committee (BRAC). BRAC reports that its Employment and Income Generation (EIG) Program, which supports activities in the subsectors of poultry and livestock, fisheries, social and agro forestry, agriculture, sericulture, and vegetable export, has created 3,583,594 jobs (by year-end 2003). It further claims that its programs supporting handicraft producers, small enterprises and small traders have produced another 2,416,208 jobs, bringing the total to nearly 6 million jobs. These activities involve the operation of a number of program “support enterprises,” which include six poultry farms, three feed mills, eight prawn and two fish hatcheries, eighteen seed production farms, three silk reeling centers, twenty-four nurseries, one bull station and one salt factory. BRAC’s commercial projects include 8 production centers (Aarong Shops) and one printing press. Finally, BRAC employs

13 Wood (1997: 289) characterizes as “relatively unexplored” the issue of credit’s “multiplier effects,” e.g., credit’s relation to employment creation. Joining other critics in challenging the assumption that “borrowers can all be entrepreneurs,” Wood argues that the failure to consider this relation “represents an over-narrow conception of credit potential… and confines credit to non-structural outcomes in terms of more fundamental transformation in the political economy” (ibid.). He proposes consideration of alternative models of credit use, such as “on-lending, transfers, pooling, collective entrepreneurialism, share-holding which could lead to larger scale [and] structurally significant lending...” (290).

14 When they do so, discussion is often brief. For instance, in their study of SANASA, Hulme and Mosley (1996: 211-212) conclude: “SANASA credit appears to have had little impact on employment outside the borrower’s family.” However, their sample size was small (12 respondents), and their analysis is cursory.

15 As McGregor (1998: 22) notes with regard to BRAC: “Compared to the amount of documentation on other aspects of BRAC’s performance (e.g., credit and savings, gender, internal organization) the consultants could identify relatively little documentation focused on enterprise development.”
27,879 program staff, 33,674 teachers, 24,335 community health volunteers, and 67,678 community health, veterinarian (poultry), and nutrition workers.

BRAC’s subsector approach to employment generation is a multistage, vertically-integrated effort, with many backward and forward linkages, that offers multiple services, such as loans, training, technical assistance, and infrastructure development (Esim 2001; Abed and Chowdhury 1997). For example, the sericulture program makes loans for silkworm rearing and mulberry cultivation and trains women in the various stages of silk production. It provides the eggs and rearing equipment, and taps into government funds to employ other women to plant and care for the mulberry trees. To ensure distribution networks, the program links the village rearers with the reeling and production workers. It also helps VO members set up village nurseries for the mulberry saplings. Finally, BRAC created a marketing outlet for rearers by developing a chain of production facilities, which it links to its Aarong handicraft shops in major cities across Bangladesh and abroad. BRAC reports that, as of June 2003, the sericulture program provided wage and self-employment to over 18,000 women, and that the handicraft program (e.g., the Aarong centers) employed over 14,000 women.16

**Grameen Bank.** GB also has expanded its mission beyond credit to include employment and business generation. As Yunus explains:

> Our dream is to get control of [the] mainstream economy, to connect the marginalized with major economic endeavors. There are a lot of unused land, fishponds, deep tubewells, capital equipment and people. Management is the key factor in making it work. Grameen members have lifted themselves out of dire poverty, but they are still marginal to the economy as a whole. The principle to follow in this process is to stick to activities that people already have a lot of knowledge about (quoted in Fuglesang and Chandler 1993: 177).

Achieving this vision requires the establishment of “enabling institutions” and an organizational structure (“gram sakar”), in which people at the village level organize

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16 As several evaluations make clear, the subsector programs are supply-driven, i.e., BRAC provides the main inputs, equipment and training, and is the main buyer of the products (Esim 2001). “In this way, BRAC clients are not fully exposed to the market, but rather to an internal market governed by BRAC itself” (McGregor 1998: 23). This structure has implications for the programs’ financial viability, as well as for its relationship with its clients. Regarding the latter concern, Esim (2001: 31) argues:

> The supply-driven nature of the sericulture program leaves little room for demand to be articulated by women clientele/beneficiaries within the program. While some women clientele want less trees and eggs to take care of, others are actually willing and able to take care of more. The program does not respond to these diverse demands and needs. This arrangement results in fixed returns for the participants, and no opportunities for business growth especially among mulberry tree cultivators and chawki and adult rearers.

As McGregor (1998: 23) also contends, BRAC, like other Bangladeshi NGOs, conceives of its mission as one of employment generation, rather than enterprise development, which “delimits the sense in which clients are perceived as businesses or potential entrepreneurs.” In its most recent Annual Report, however, BRAC has begun speaking of micro-enterprise development, perhaps signaling a shift in orientation.
themselves and their community’s resources to solve local problems. So, for example, upon taking over a failing government fisheries project in 1986, GB organized the people living around the ponds into small groups to become partners in pond management with the Bank. While the fishermen and women provide their labor, GB provides capital and training in modern fish culture, and the two sets of stakeholders share the harvest on a fifty-fifty basis (Yunus 1997). Yunus observes that “[t]he poor, who under the previous regime, either stole fish for themselves or stole fish as agents of others, now became growers and protectors of the fish, and owners of the fish” (Yunus 1994). The project’s success—fish output increased from 40 tons in 1987 to more than 1,000 tons in 1996—led GB to establish the non-profit *Grameen (Motsho) Fisheries Foundation* (GFF) in 1994. GFF provides pond-side hatcheries, production inputs and marketing services, and organizes and trains fishermen and women. More than 2,700 such farmers cultivate fish on a part-time basis, each earning US$100 in supplemental annual income (in 1996).

The Grameen Fisheries Foundation is one of more than two-dozen not-for-profit and commercial organizations comprising the *Grameen Family of Enterprises*. These companies operate in such areas as energy, education, telecommunications and textiles. For instance, *Grameen Shakti*, a not-for-profit rural power company, supplies renewable energy to unelectrified rural villages by selling photovoltaic (PV) systems to households, school and micro-businesses. It has trained and hired 300 unemployed local youths to be PV installers and maintenance technicians. *Grameen Knitwear, Ltd.* is a for-profit export-oriented company, owned by four Grameen not-for-profits organizations, including *Grameen Uddog*, which organizes more than 10,000 individual handloom weavers to produce and export the famous “Grameen check” fabric. *Grameen CyberNet Ltd.*, in operation since July 1996, was one of the first Internet service providers in Bangladesh. *Grameen Telecom*, a for-profit company, has provided loans to over 53,000 GB borrowers to buy mobile phones and offer telecommunications services in almost half of Bangladeshi villages, where such services had not existed before. The average annual income of “phone ladies” is estimated to be US$700, more than double the country’s per capita income (Binswanger and Aiyar 2003). The company plans over the next several years to provide cellular mobile phone service to 100 million rural inhabitants in 68,000 villages, by financing GB members to provide such services.

**Community Development/Technical Assistance Organization**

In recent decades, many nongovernmental organizations have pursued enterprise creation strategies, not only to provide an independent income stream for their various development projects, but also to generate employment opportunities for their target populations, particularly disadvantaged groups. These organizations are sometimes referred to as “hybrid,” since they combine nonprofit aims with a for-profit approach to financing (Civicus World 1998). Recognizing that small and medium sized enterprises are major contributors to job creation, these organizations create and/or operate businesses—some related to their social mission, some not—that are designed to generate income and jobs for those in need. A number of support organizations have emerged to

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17 500 groups of five persons (“fish farming groups”) form to become a center that is responsible for a pond (Fuglesang and Chandler 1993).
encourage NGOs in their pursuit of social enterprise development and alternative financing strategies, such as the Nonprofit Enterprise and Self-Sustainability Team (NEStT). To date, however, there appears to be little systematic review of the job creation impacts of organizations following the economic enterprise approach.

The following community development NGO in our sample engages in serious economic activity with the aim of generating employment: 

**Kagiso Trust (KT).** KT was founded in 1986 to channel financial support from the European Union to the anti-apartheid movement. Upon apartheid’s demise, the EU began working directly with the democratically-elected South African government, forcing KT to seek funding elsewhere in order to continue its mission to create economic opportunities for Black South Africans. KT developed a new financing strategy based on promoting sustainable development through participation in joint ventures and the creation of an investment business. With start-up capital from an American bank, KT founded the *Kagiso Trust Investment* (KTI) Company in 1993, a wholly-owned for-profit affiliate that invests in new or existing businesses to generate income for its shareholders, especially KT. KTI maintains significant holdings in the businesses that it has created, including: Kagiso Media Ltd., a collection of broadcasting and media-related companies, which is listed on the Johannesburg Stock Exchange; Kagiso Khulani Supervision, South Africa’s largest industrial catering company, which provides food services to more than 650 kitchens in hospitals, schools and businesses, and employs more than 6,000 people; and Kagiso Financial Services, a joint venture with the international Rothschild Group.

To further its job creation and economic empowerment goals, KT also created *Kagiso Trust Enterprises* (KTE), a separate, wholly-owned affiliate that promotes small business development by offering technical assistance, training and loan financing to small and medium-sized, Black-owned enterprises. It directs investment capital to sectors that promote sustainable development, such as education, telecommunications and tourism. For instance, it created an educational television production company that explores the conditions of post-apartheid South Africa (Kalegaonkar and Brown 2000). Moreover, both KTI and KTE avoid investing in areas that they deem harmful to the goals of Black empowerment, such as mining, tobacco, alcohol, gambling, and environmentally unfriendly products.

2.3. **Local Government Enterprise**

The growth in employment of China’s TVEs has been remarkable. As noted, over the post-1978 reform period, TVE employment more than quadrupled, growing from 30 million workers in 1980 to 135 million in 1996 and providing an additional 100 million new jobs in the rural sector (Perotti et al. 1999; Harvie 2000). In addition, TVEs’ share in total employment rose from seven percent in 1978 to 21 percent in 1995 (Sachs

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18 Unfortunately, it appears that KT does not provide documentation of its employment creation record, or make public its financial information.
19 In addition to KTI and KTE, Kagiso Trust established the Kagiso Development Trust, Kagiso Trust Consultancy and Kagiso-Cowi—all of which constitute the Kagiso Trust Group (KT-Group). The activities of these enterprises will be discussed in more detail below.
and Woo 1997). The rate of employment growth has slowed in recent years, although the employment level remains high (Harvie 2000).

Township and Village Governments (TVGs), which are primarily responsible for TVE development, initiate or directly create TVEs as a means to create jobs, generate revenue and improve community living standards. The increasing devolution to TVGs of responsibility for education, social welfare and infrastructure enhances their motivation to create these enterprises or maintain ownership upon their restructuring to shareholding co-operatives (Perotti et al. 1999).

3. **REPLICATION**

Replication—the process of reproducing a successful program elsewhere—typically involves testing a pilot program on a small scale and then implementing it, relatively unchanged, in other venues and on a grander scale. Replication is an especially popular approach among development organizations, which often are pressured to deliver a “controllable, rapid, results-guaranteed mode of functioning” (Uvin and Millar 1996: 347).

This section considers two factors underpinning successful replication efforts: a continuous learning approach, and identification/analysis of those features that most readily can be learned and adapted to new circumstances, namely institutional design practices and policy. It then sketches a successful—and organic—effort to build a co-operative system modeled on Mondragon: the co-operative network in Valencia, Spain.

3.1 **Continuous Learning**

As noted in the section on organizational scaling-up, attempts to expand a program, whether through scaling-up or replication, tend to be most successful when the expansion occurs organically, rather than mechanically. In the “continuous learning” approach to replication, all of the program’s stakeholders participate in the experimentation process, rather than just program officials, experts, and outside funders (Gonsalves 2001; Taylor 2001). Moreover, these stakeholders are commonly networked to each other and to other private and public actors (Taylor 2001).

Two cases in particular—the Grameen Bank and SEWA—demonstrate the “continuous learning” approach to replication.

**Grameen Bank.** GB's replication efforts have been tremendously successful. Within Bangladesh, 2.5 million people are members of Grameen transplants or “clones,” and millions more belong to such organizations in Africa, other parts of Asia, Latin America, Europe and the United States (Schreiner 2003).

In 1989, in response to growing demand by social change workers for help in translating and implementing Grameen principles and programs, the Grameen Trust (GT) founded the Grameen Bank Replication Program, which supports GB replication projects worldwide (GT website). The program’s methodology is striking. In essence, the program invites stakeholders of the replication process (“potential replicators”) to
participate in “Dialogue Programs.” The objectives of the programs, which can last four to six weeks, are:

[T]o provide an immersion into the Grameen milieu, to assist in the design of Grameen type credit programs, to share the experiences of implementing and adopting the Grameen model in different countries and to widen the network of individuals and organizations working in the field of poverty alleviation. 

Participants are expected to prepare a work plan for addressing the problem of poverty in their own countries. The Dialogue provides promising replicators with a unique opportunity to spend a considerable amount of time at the field level and live through the daily routines of field staff and borrowers (GT web site, emphasis added).

Hence, GT staff themselves do not establish the replication program in the targeted country, but instead invite potential replicators to learn about the model in a hands-on fashion. These stakeholders then take these lessons home to set up the local program themselves and with their allies. Importantly, however, the GT closely monitors the performance of the programs and offers technical and financial support, as needed.

The GT also coordinates the Grameen Global Network (GGN), a formal network of individuals and organizations working in poverty alleviation nationally and internationally. “The main objective of the GGN is to develop a common approach and conceptual framework, through mutual sharing of experiences and dissemination of information, for the implementation of effective and sustainable credit and savings programs for the poorest of the poor, especially women, following the Grameen approach” (GT website). The network’s activities, which stress the need for continuous learning among stakeholders through dialogue and interaction, include:

- “strengthen[ing] existing supportive connections with national, regional and international organizations;”
- “facilitat[ing] training and the provision of technical assistance and advice to and among members of the network, especially in capacity building”;  
- “build[ing] training capacity of network members through creation of training centers/facilities to be run by partners in collaboration with GT”; and
- “shar[ing] experience through periodic meetings, seminars, dialogues, conferences, staff exchange and others” (GT website).

SEWA. SEWA’s replication efforts likewise emphasize the importance of network building. Founded in 1982, SEWA Bharat is a federation of ten SEWAs operating in eight states, including Rajasthan, Kerala, Uttar Pradesh and Bihar, with a total membership in 2002 of 694,551. Each SEWA within the federation is autonomous, working independently to assist self-employed women in its respective state. The aim of the federation is to establish new SEWAs across India and strengthen their organizational capacities. Its principal activities occur on two levels. On one level, it engages in advocacy on a variety of state and national issues through campaigns, seminars and
workshops. On another level, it seeks to build and strengthen new women workers’ organizations by “acting as a link among SEWAs;” “coordinating and guiding the process of establishing new SEWAs;” conducting training and workshops for members, organizers and leaders; expanding microfinance services within all SEWAs; and developing social security services (e.g., health, insurance) for SEWA members (SEWA website).

In addition, through its participation in international networks, as well as its individual efforts, SEWA is helping build movements of self-employed women in other countries. For instance, in the early 1990s, SEWA staff traveled to Durban, South Africa to assist local organizers and union leaders in establishing the Self Employed Women’s Union (SEWU). Currently a 7,000 member-strong national association of vendors, home-based workers and other informal sector workers, SEWU works closely with SEWA on its issues and campaigns. In 1998, a delegation of Yemeni women leaders and organizers visited SEWA and requested the organization’s support to develop its own movement of informal sector workers. SEWA staff visited Yemen and helped establish the Women’s Economic Empowerment Association (WEEA) in 1999. A similar exchange between Turkish activists and SEWA staff led to the creation of an self-employed women’s association in Turkey in 1999.

Finally, SEWA is a member of two international networks: HomeNet, founded in 1994, which brings together home based workers’ organizations, policymakers and researchers to advocate for home workers’ rights; and Streetnet International, an international alliance of member-based organizations of street vendors, market vendors and hawkers, which was launched in 2002.

3.2 “Social Inventions”

In discussing Mondragon’s institutional arrangements, Freundlich (1998) observes that a program’s success factors generally fall within two categories. The first consists of factors that are “more or less unique to certain historical eras or to particular places, and as a result, are not readily adapted for transfer to new situations (though these factors still provide important lessons)” (1998: Sec. 3.0). The second category consists of innovations that readily can be “learned” and “adapted to other circumstances” (ibid.).

MCC. In a useful analysis that can be applied to all the cases profiled here—and arguably one that must be undertaken as part of a successful replication effort—Freundlich identifies the factors contributing to Mondragon’s success, assigning them to one of the two categories. Four factors, he claims, belong to the first category (i.e., unique historical and geographical elements): a charismatic leader (Fr. Arizmendiarieta); a protected, growing economy; an industrial tradition; and a reaction to the Franco dictatorship. An additional four factors relate to Mondragon’s institutional design and business practice. Because several of the cases examined here share many of these institutional strategies, we examine in greater depth MCC’s “replicable” practices:

1) Support institutions and adaptability. Freundlich asserts that Mondragon’s most important social invention is its “ability to adapt, to design new institutions and new

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20 As Freundlich (1988) notes, William Foote Whyte refers to some of these institutional design and policy factors as “social inventions.”
ways of organizing itself to meet changing needs” (Sec. 3.0). Specifically, Mondragon created a number of institutions designed to support and ensure the success of the co-ops in its network, called second degree (or second level) cooperatives. He identifies five such support institutions:

a. **Finance and technical assistance.** In light of the chronic difficulty that co-operatives face in securing adequate financing, Mondragon created its own banking system, the Caja Laboral (Working People’s Bank). Drawing on deposits from member co-ops, the business community and the general public, the Caja has become one of Spain’s largest financial institutions, with over 250 branches across the country. The Caja has played a central role in financially supporting new enterprise formation, saving troubled firms, and providing management consulting and technical assistance through its “business division.”

b. **Mutual business support.** To gain competitive advantage, member co-ops in the 1960s joined together in regional subgroups for joint provision of employment planning (shifting workers across firms to meet changing demand), strategic planning, marketing and legal services and training. Upon Mondragon’s 1991 restructuring and creation of the MCC, the subgroups shifted their organizational basis from regions to sectors to better realize economies of scale, technology-sharing, joint ventures and management expertise.

c. **Social security and insurance.** Mondragon created Lagun Aro in response to Spanish legislation that defined workers as self-employed and thus largely ineligible for state social security, unemployment and health benefits. Funded by workers’ paycheck deductions, the system provides these benefits more inexpensively than the state system, while making available funds for financing cooperative enterprises.

d. **Technological R&D.** Early on, Mondragon recognized the crucial importance of R&D and the inability of many firms, especially smaller ones, to afford such services. Hence, Mondragon created several institutions to provide general and project-based R&D to its member co-ops—first its polytechnical college and later three separate R&D centers.

e. **Education.** Freundlich claims that educational institutions have been the “bedrock on which Mondragon has been built” (ibid.). Having grown out of such an enterprise (the polytechnical school that Fr. Arizmendiarieta founded in 1943), Mondragon now provides four university-level programs (engineering, business, humanities, teaching) within the private, cooperative Mondragon University. In addition, MCC offers several adult education and training programs.

2. **Business and technological competence.** Throughout its history, MCC has invested heavily in business and engineering education and R&D, with an emphasis on the applied nature of these activities, in order to support new business ideas and technologies.

3. **Internal capital accounts/venture capital.** In addition to accumulating capital through the CLP and Lagun Aro systems, MCC builds significant reserves for financing new and existing firms through its system of distributing profits and its policy of delaying workers’ access to these profits. MCC annually divides its surplus among three categories: collective reserves for business needs; community projects; and distribution to worker-members. This profit share is deposited directly into workers’ internal capital
accounts, accrues interest and is available only when they leave or retire, thus providing MCC with capital for funding business start-up and expansion.

4. Cooperative structure and policy. Freundlich credits Mondragon’s elaborate cooperative corporate structure, as well as such policies as pay solidarity and profit distribution (as described above), with fostering workers’ strong commitment to Mondragon and the cooperative idea.\(^{21}\)

**Valencia’s Cooperative “Experiment”\(^ {22}\)**

In 1969, a group of young activists in Catalonia province on Spain’s eastern coast established a housing cooperative (Covipar), the first step in their effort to build a more just society. Two years later, they traveled to Mondragon to meet Fr. Arizmendiarrrieta, who convinced them that, while providing housing (or other) services was important, they would have a far greater impact on the Valencia community by developing an economic instrument that would create a capital base and build equity, enabling them, in turn, to pursue projects designed to generate jobs and wealth. Upon their return, the group set up a consulting collective (Coinsur) that provided services to the housing cooperative, thus generating income and building a capital base. From its origins in Covipar and Coinsur, the Valencia cooperative system has evolved to support eleven community businesses, including several worker cooperatives, a credit union, a retail chain, an insurance company, a joint stock company, and a housing development cooperative. It had nearly 4,000 worker members and sales of CAD $716 million in 1996.

Through the years, the Valencia group regularly visited Mondragon to observe its operations and identify best practices to implement at home. In MacLeod’s (1997: 102) analysis, the group’s attempts to replicate practices generally succeeded when they “adopted crucial aspects of the Mondragon model,” and generally failed when they did not. Examples of the latter include an attempt to create an exclusively female cooperative, inspired by Mondragon’s efforts to promote female entrepreneurship by establishing such an enterprise. The Valencia group was unable to recruit the necessary professional management, however, and the cooperative closed. A furniture cooperative and textile cooperative also failed for lack of technical competence, despite great enthusiasm among the founders, while a construction cooperative designed to handle some of the group’s contracts was unsuccessful because the workers preferred receiving a secure salary from a conventional company.

By contrast, the Valencia group’s efforts to replicate a number of core Mondragon institutions have been fruitful. Recognizing that the cooperative system needed a financial instrument to expand, the Valencia team created a community bank (Caixa), modeled on Mondragon’s highly successful CLP. Like the CLP, the Caixa is a second

\(^{21}\) In brief, this consists of a General Assembly of worker-members, which meets at least once annually, elects the Board of Directors and Board President (via the one-member-one-vote principle), appoints the CEO, and approves the CEO’s choices for division directors; and a Social Council, which is elected by each department to represent front-line workers and encourage worker-management dialogue.

\(^{22}\) The description that follows is based on MacLeod’s (1997) analysis of the Valencia co-operative system.
level cooperative whose voting members are cooperatives and staff. Similarly, the Caixa initially performed research and development for the group, but soon realized that it could not effectively combine lending with development and consulting functions. Hence, like Mondragon, Caixa spun off its technical assistance arm to form a separate business entity, the Grupo Audit. Also a workers’ cooperative, Grupo Audit provides legal, accounting, fiscal and management services, as well as strategic planning, market analysis and engineering studies. It has a working relationship with Lagon Aro, Mondragon’s consulting group. The Valencia group succeeded as well in developing a cooperative grocery chain (Consum), modeled on Mondragon’s Eroski chain of retail stores. Both highly profitable enterprises, Consum and Eroski entered into commercial agreements in 1992. Thus, in its relationships with various Mondragon enterprises, Valencia’s cooperative system has demonstrated an aptitude for engaging in strategic inter-firm alliances, an important Mondragon strategy.

Between 1983 and 1988, free rider problems and a lack of common focus, strategies and shared economic projects among the cooperatives prompted the Caixa to invite Mondragon leaders to Valencia to lead a seminar on group cooperativism. As a result, in 1988 the Caixa established the Co-operative Entrepreneurial Group of Valencia (GEVC), designed to resemble a key element of Mondragon’s governance structure, the Congress. The GEVC serves to share resources and develop common strategies among its members for increased development in the area.

The experience of GEVC, with its continual efforts to strengthen its governance structure, demonstrates that the Valencia system is committed to operating in a continuous learning mode by engaging in reflection and periodic reorganization. As MacLeod (1997: 100) argues:

In their history and in their attitude, the Mondragon Experiment and the Valencia Experiment are committed to constant experimentation and change. When asked what they will do in three or four years, they often admit that they don’t know. In contrast to community-initiated movements in other countries, they have shown a tremendous flexibility and readiness to loosen their structures and reform them. Rather than being inflexibly committed to one structure or even to one idea, they adapt to new circumstances and this manifests a tremendous loyalty to their employees and the local communities where their employees live (emphasis added).

4. FINANCIAL SUSTAINABILITY

After first sketching the debate on microfinance commercialization, this section examines the records of the micro-credit organizations in our sample with regard to their levels of financial sustainability and subsidization rates. It then elaborates the claim that the program’s institutional form, namely ownership and self-management by clients, can contribute to financial viability. The section next discusses a self-financing strategy that NGOs have undertaken as an alternative to both traditional nonprofit resource
mobilization strategies and commercialization: the creation of for-profit social enterprises. Finally, the section addresses the sustainability question in the context of worker co-operatives.

4.1. Microfinance Institutions

Many within the donor and practitioner communities have embraced the idea that microfinance programs that commit to achieving financial sustainability will also be those that most effectively alleviate poverty. This “win-win proposition” has helped fuel the current push for microfinance commercialization, popular among such donors as the World Bank’s Consultative Group to Assist the Poorest, the U.S. Agency for International Development and the United Nations Development Program.

As several leading scholars have argued, however, the “win-win vision” is based more on rhetoric than either logic or evidence (Morduch 2000). Schreiner (2003), for instance, charges that, given flaws in previous attempts to assess subsidies and benefits, the cost-effectiveness of microfinance actually is unknown; the inherent difficulty in measuring impact means that all such judgments remain necessarily subjective. Available evidence, moreover, shows that the vast majority of microfinance programs with poverty-alleviation aims is not self-supporting and likely never will be (Morduch 2000, 1999a; Woller et al. 1999). According to a recent comprehensive study, programs targeting the poorest borrowers “generate revenues to cover just 70% of their full costs” (Morduch 1999b: 230, citing MicroBanking Bulletin 1998). Despite awareness of best practices and efforts to achieve self-reliance, it appears, programs remain subsidy dependent on account of the high transaction costs of small loans, the high costs of social intermediation and the inability to charge poor clients interest rates that cover full costs (Khandker 1998).

Consistent with this assessment, the experience of the microfinance institutions profiled here shows that they remain subsidized to varying degrees, though they all endorse the goal of financial sustainability (Woller et al. 1999). The Grameen Bank was heavily subsidized in its early years, receiving US$175 million in donor funds between 1985 and 1996, a period in which its membership increased twelve-fold (Morduch 1999b). The GB has made great strides toward financial self-sufficiency, however, and presently claims to finance 90 percent of its loans from its own fund and depositors’ savings.23

BRAC also has improved its financial situation, with donor contributions reportedly making up 20 percent of its annual expenditures in 2002.24 SANASA’s primary societies are financially viable, although its top and middle-level tiers are highly subsidized—a pattern common to federated structures (Hulme et al. 1996).25 Finally,

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23 GB further reports that it decided in 1995 to eschew donor funds, accepting its last subsidy installment in 1998. “GB does not see any need to take any donor money or even take new loans from internal or external sources in future. GB’s growing amount of deposits will be more than enough to repay its existing loans, run and expand its credit programme, from now on” (GB website)

24 Indeed, a MicroBanking Bulletin report based on 2000 data suggests that BRAC is operationally and financially self-sustainable (Rahman 2000).

25 Hulme et al. (1996) observe that the grassroots societies’ financial viability is largely attributable to the externalities that the federation’s upper tiers generate. As the present report discusses in relation to worker
**SEWA Bank** is perhaps the least subsidy-dependent of the smaller-scale cases, having never received a grant and only receiving its first outside capital from the Indian Government to finance housing construction in 1999 (Chen and Snodgrass 2001).

In view of the reality that some microfinance programs may require ongoing subsidization, the salient question with regard to financial sustainability arguably is whether the subsidies are “well-spent” (Schreiner 2003: 358). Both the theoretical and empirical literature shows that subsidized programs are capable of operating efficiently and effectively, while achieving depth of outreach, reaching significant scale and promoting other social values (Morduch 2000: 620; Woller et al. 1999). Theory suggests, for instance, that it is a program’s ability to operate within “hard budget constraints,” not its pursuit of profit maximization, which enables it to achieve efficiency (Morduch 2000: 626). Subsidized programs certainly can operate within such constraints, as the records of both the Grameen Bank and BRAC demonstrate:

**Grameen Bank.** Evaluations show that the GB is well managed, generates benefits that exceed costs, has turned a profit almost every year since its founding, and maintains repayment rates of around 98 percent (Morduch 1999a, Khandker 1998). Regarding depth of outreach, GB reaches a client pool that is poorer and requires smaller loans than more profitable and self-sufficient MFIs, such as Bolivia’s BancoSol and Indonesia’s Bank Rayat.  

Recently, Schreiner (2003) compared the GB’s subsidies and outputs from the period 1983 to 1997 using a present-value framework. Finding that the surplus for GB users exceeded the levels of subsidy during that period, he concludes that the subsidies were well spent. In analyzing the reasons for GB’s success in achieving cost-effectiveness, Schreiner (2003) notes that the Bank strives to operate efficiently while serving the poor. Accordingly, it has designed incentive structures to reward both objectives, with the result that “subsidies [do] not leak to employee perquisites but rather finance[,] expansion and [keep] costs to users low” (2003: 372). For instance, the Bank has chosen to rely on a low-cost lending method (joint liability groups) that can be implemented by low-cost workers.

**BRAC.** The case of BRAC demonstrates that subsidization and significant scale are not necessarily in conflict: with nearly four million members, BRAC has become the largest NGO in Bangladesh and one of the largest in the world. Its efforts to extend outreach to the very poorest clients also distinguish it from many of its more commercially viable counterparts (Matin and Hulme 2003). Finally, like the Grameen Bank, BRAC show no “signs of collapsing,” as “donors remain committed to the cause” (Morduch 1999b: 1592).

and consumer co-operatives, networked and federated structures confer significant externalities on local units—such as financial support—that help them respond successfully to global economic pressures.

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26 Like many MFIs, GB calculates profits by including grants from donors as part of income, thus deviating from standard accounting practice. As such, it was able to report $1.5 million in profits between 1985 and 1986, rather than a loss of $18 million (Morduch 1999a).

27 The average loan size of a GB borrower in 1996 was $134, compared to $909 for BancoSol borrowers and $1007 for Bank Rayat borrowers (Morduch 1999a).

28 The author uses cost-effectiveness analysis rather than cost-benefit analysis because the former involves measuring outputs and subsidies, which are easier to measure than benefits and social costs.
In sum, while the push for self-financing has spurred a necessary debate about the past failures of subsidized credit programs, it also arguably has discouraged experimentation and innovation and encouraged microfinance institutions to “stretch accounting data in order to claim profitability while simultaneously eschewing social evaluations,” thereby hindering efforts to replicate successful cases (2000: 627). As Bhatt and Tang (2001) argue, the diverse needs of the poor call for the existence of both subsidized and unsubsidized programs. The key seems to be the manner in which the subsidies are used (Bennett et al. 1996), as the next subsection seeks to illustrate.

4.2 The Relationship between Ownership and Sustainability

While the literature gives pause to the accepted wisdom that subsidization necessarily leads to inefficiency, mistargeting and limited scale, it also provides support for the idea that the program’s institutional form has implications for financial sustainability. Specifically, evidence suggests that program ownership and self-management by clients can contribute to sustainability (Bhatt and Tang 2001; Cerven and Ghazanfar 1999; Chao-Beroff 1997). For instance, a World Bank study of the financial services programs of five South Asian NGOs identifies ownership as the key factor in promoting sustainability, while also finding that the effort to build the institutional and self-management capacity of client groups is critical to program success (Bennett et al. 1996). Three of the NGOs in the study linked client groups with local branches of existing formal financial institutions, while the other two helped groups form their own financial institutions, such as a cooperative or village bank. The authors found that the latter two programs—SANASA in Sri Lanka and CDF in India—were the most successful in moving toward self-sufficiency. Though both received subsidies and were not profitable, they were “well on their way to covering the full cost of their operations” (284). SANASA performed the best, with a 14 percent cost of lending rate and a 95 percent loan recovery rate.

The authors argue that “the single most important factor contributing to group financial performance is the source of funds for group lending activities” (273, emphasis in original). That is, both SANASA and CDF relied on internally generated savings, rather than donor funds, as the source of loan capital. Such use of members’ savings heightens the groups’ sense of program ownership and responsibility for its performance, since their own money ultimately is at stake. It is this sense of ownership, and not just peer pressure, the authors contend, that helps ensures loan repayment.

29 That capacity-building plays an important role in enhancing program effectiveness suggests that NGOs that are not cooperatives also may contribute to community self-reliance and local resource mobilization (Bhatt 1997). As described elsewhere in this report, the case of BRAC arguably exemplifies this dynamic (Lovell 1992). But see Hulme et al. (1996) for a more critical view of BRAC’s success in assisting its village organizations to become well-rooted institutions.

30 Of course, microfinance programs that are not cooperatives also may achieve high repayment rates, but members’ ownership and control of program resources arguably matter most when the program’s mission includes the goal of building autonomous and empowered local disenfranchised citizens (Edgcomb and Barton 1998).

31 Bennett et al. (1996: 286) note that member savings are known in the field as “hot” money, and donor and government funds as “cold” money, with clients often viewing the latter as grants rather than loans.
In addition, both of the successful NGOs use donor subsidies to provide capacity-building, social intermediation to the groups, for the purpose of fostering the necessary self-reliance for eventual self-management of the financial services program (Bennett et al. 1996; Hulme et al. 1996). Specifically, the NGOs offer their members training in group dynamics, participatory management, accounting, and basic financial management skills. As Hulme et al. (1996: 240) observe of SANASA, “management capacity is developed by a slow and careful process that fosters the formation and expansion of groups but ensures that the groups ‘belong’ to the members (and not to the parent organization as in BRAC….and so on).” Bennett et al. (1996) conclude that subsidies used in this institution-building manner promote rather than undermine ownership, ultimately assisting programs on their path to sustainability.

4.3 Self-Financing through Social Enterprise

With a growing number of non-profit, civil society organizations (CSOs) in emerging market countries competing for a diminishing share of development resources, development professionals in recent decades have turned to alternative models of organizational and financial sustainability (Etchart and Davis 2003). Increasingly, innovative CSOs are looking beyond the traditional nonprofit financing vehicle—the philanthropic grant—to the rich array of financing sources and instruments that characterize the for-profit capital market (e.g., venture capital, private equity funds, bonds, loans). In the new, entrepreneurial approach to generating added income, often termed “social enterprise,” CSOs supplement their donations and grants with revenues derived from membership dues, fees for services, product sales, use of “soft” assets (e.g., licensing agreements, patents) and “hard” assets (e.g., real estate, equipment rental), investment dividends, and for-profit businesses.

The civil society support organization, NESsT, posits that “when used in a socially- and environmentally-responsible manner, the enterprise activities of some CSOs can help create an ‘alternative economy’ more responsive to the needs of local communities, small producers and low-income people” (NESsT website). NESsT argues, however, that self-financing through social enterprise should be viewed neither as a “panacea” for the financing challenges confronting non-profits, nor as an excuse for the commercialization of the nonprofit sector. Instead, the social enterprise approach should be considered an alternative means of providing CSOs with a sustainable source of independent income, and thus greater autonomy in pursuing their social missions.

The community development organizations in our sample are organizational “hybrids” in the sense that they pursue nonprofit aims with for-profit means (Civicus World 1998). Their financing strategies exemplify the new, social enterprise approach. Moreover, entities such as the primary thrift and credit co-operative societies that make up SANASA similarly undertake enterprise development as a means of supplementing their income.

Kagiso Trust (KT). As noted, the fall of apartheid occasioned the loss of KT’s largest donor, the EC, which began working directly with the democratically-elected South African government. Recognizing that its strong ties to the Black South African community were a critical asset—business people in the post-apartheid era were
constantly asking KT for help in bringing marginalized people into business management—KT established a for-profit business consultancy (Kagiso Trust Investments) in 1993 with a US$15 million loan from J.P. Morgan. The rapid success of this initiative led KT to start up the other affiliates in its Group: a separate development trust, a small business development company, and two for-profit business consultancies. The revenues generated by these commercial enterprises have enabled the KT-Group, now the largest Black-owned NGO in South Africa, to advance its mission to promote sustainable development and Black economic empowerment.

KT, the “parent organization” to this network of businesses, states that its long-term financing goal is to derive its funding solely from its commercial activities, as well as its “intellectual capital, its expertise in grassroots development, and its consulting work for government, state-owned enterprises, aid agencies, and international organizations” (KT website).

Fundacion para la Educacion Superior (FES). Having difficulty covering program expenses, the Universidad del Valle in Cali, Columbia established FES in 1964, based on initial contributions of US$2,666 and assistance from several U.S. Foundations. FES raised money for the university by managing grant money from these and other foundations, while investing the unused funds in secure loans at prevailing interest rates. As FES became independent in the early 1970s, it established a social development arm to make grants, conduct research and create seed programs outside of the university. Officially recognized by the government as a commercial financing company in 1975, FES began securing resources in the capital market and making loans, contributing to a remarkable expansion of its capital base (Civicus World 1998). It formed a new corporate structure composed of seven financial companies that it owns and controls and that provide “specialized financial services to medium and small-scale enterprises, private banking services, specialized consumer credit, corporate financial services, and fiduciary management and brokerage services” (ibid. 8).

FES derives its income from these commercial activities, as well as from the administration of Permanent Funds and Permanent Matching Funds, which FES established in the late 1970s to build its endowment. These funds consist of contributions by individuals and CSOs, which FES matches on a 50 percent basis and which become part of its endowment. Typically, FES returns 30 percent of the yields of the total amount to the CSO on an ongoing basis at the Consumer Price Index plus 4 percent. By the late 1990s, FES had created nearly 500 such funds, and its endowment was worth approximately US$42 million (NESsT 2000). This funding stream has enabled FES to distribute over US$50 million in grants, as well as operate its own social projects, such as the FES Leadership Institute (now an independent NGO).

SANASA. As noted, SANASA primary societies rely on internally generated savings—rather than donor funds—as the primary source of their loan capital. In addition, many also rely on “nonfinancial” revenue generated from enterprises that they own and operate, such as carpentry shops, brick-making factories, catering services, retail outlets, and English and computer classes (Fischer et al. 1999). Some societies derive as much as 45 percent of their income from such enterprise activity. Often, primary society members work at the enterprises to develop their skills and generate employment income.
BRAC. BRAC likewise has spawned several highly successful, independent commercial ventures that provide socially useful services and generate revenue for BRAC, which typically remains a shareholder. These companies provide services such as hospitality, cold storage, software development, internet service provision, housing finance, education, and small and medium enterprise finance and banking. In addition, BRAC directly manages several ventures, including the Aarong retail outlets, which sell products that BRAC’s artisan members produce; a printing press; and a dairy plant, which BRAC established to ensure a fair price of milk for rural producers and which has become the second largest liquid milk plant in the country. Other program support enterprises that BRAC sponsors include six poultry farms, six feeds mills, twelve fish and prawn hatcheries, fifteen grainage and reeling centers (sericulture), eighteen seed production farms, 24 nurseries, a bull station, and an iodized salt factory.

4.4 Worker Cooperatives and Sustainability

The argument that cooperatives, in particular worker cooperatives, are inherently inefficient and thus unlikely to succeed is widespread (Gulati et al. 2002). Also common is the supposition that, of cooperatives that are successful, most eventually convert to traditional capital-controlled firms. Yet there is extensive evidence that cooperatives are not less productive than conventional firms, and do not depend for their survival on subsidies (Smith 2001; Hyde 1991). As Smith (2001: 4-5) claims:

Indeed the weight of the evidence in the literature is that productivity is often in practice somewhat higher in co-ops, despite possible problems facing such firms including access to capital (see e.g. Bonin, Jones and Putterman 1993). While there are a few studies that have found no productivity differences, almost no studies have ever found productivity advantage for conventional firms.

MCC and La Lega. Smith (2001: 44) observes that the exit rate of both Mondragon and La Lega cooperatives is very low, “indeed extraordinarily low when compared with conventional firm exits.” For instance, of the 120 cooperatives that Mondragon founded between 1956 and 1992, only eight failed (and only a handful has failed since then). Most of the closed co-ops were converted conventional firms that had been ailing prior to conversion (Smith 2001). Smith notes that the Basque and Italian cooperative networks employ two primary strategies to resolve the problem of failing firms. La Lega tends to merge such firms into another co-op without the loss of jobs, although workers may be reassigned to different sectors or tasks. Mondragon offers ailing firms “temporary subsidies during the period of co-op distress” (44). However, it is careful to avoid the dangers of moral hazard by making such support contingent on efforts to spread the pain by reducing wages and the values of internal capital accounts. In addition, workers may be temporarily or permanently transferred across co-ops, and the firm frequently reorganizes, changes the product mix, and even switches to a new product line.

Smith argues that, whether or not cooperatives are more productive than conventional firms, a key source of cooperative advantage lies in the development of the
cooperative network, an organizational adaptation that serves to internalize various externalities that hinder co-op formation and survival. This report discusses the network strategy in the section on responses to globalization, below. For present purposes, it is important only to note that the Italian and Basque cooperatives have thrived without outside subsidies, largely through the coordination and support of the larger network; and that these network structures themselves are "entirely self-supported by contributions of the member co-ops" (Smith 2001: 5). While cooperatives in certain markets or regions may require outside support (typically from government) in the form of start-up capital (see Gulati et al. 2002), the cases of Mondragon and La Lega—among the world’s most successful worker cooperative networks—shows that certain organizational innovations can offer comparative advantage to the alternative ownership model.

4.5. Local Public Enterprise

Unlike China’s State-Owned Enterprises (SOEs), TVEs operate without government subsidy, and while Township and Village Governments (TVGs) may subsidize across TVEs within a community, they do so only rarely (Perotti et al. 1999). Yet, by all accounts, TVEs have profitability rates that are significantly higher than their state-owned counterparts (Harvie 2000). The hard budget constraints confronting TVEs are considered a major factor underlying their success. Unlike governments at the level of county or above that possess authority to decide whether SOEs should pay back their loans, TVGs have no authority over the state banking system and cannot protect their enterprises from outside competition by erecting trade barriers (Perotti et al. 1999). Consequently, TVEs must face market competition head-on.

5. RESPONSES TO GLOBALIZATION

As the section on scaling-up argued, the cases examined here have all moved to scale over the last several decades of profound economic and political change. Increasing global competition and rapid technological advances have presented the cases with both challenges and opportunities. While their organizational responses to globalization vary, several patterns stand out. First, in the effort to survive and even innovate in the new competitive environment, a number of cases have pursued a variety of partnership-based strategies of intersectoral co-operation and global investment, leading them to strengthen their interfirm alliances through the creation of networks and consortia; and frequently to adopt practices of their capitalist counterparts, such as joint venturing and outsourcing. Such practices enable the enterprises to gain access to new markets, achieve economies of scale and scope in marketing and production, and obtain new technology (Smith 2001). Second, several cases have created strategic alliances and coalitions with public and private actors at the local, regional and international levels. Third, cases have undertaken organizational restructuring, creating federative, corporate structures, entering mergers and promoting spin-offs. We consider each set of responses to globalization’s challenges in turn.
5.1. **Inter-firm Alliances: Networks and Linkages**

Perhaps the strongest evidence that inter-firm networks generate competitive advantages is found among the “flexible manufacturing networks” of small-scale firms in Italy’s industrial districts[^32] (Porter 1990; Piore and Sabel 1984). Among the distinctive features of these decentralized networks are the horizontal ties connecting firms, which diffuse best practices and technological innovation; and the numerous forward and backward (supply chain) linkages, which enhance the districts’ market leverage in purchasing raw materials and distributing finished products (Berger and Locke 2000).[^33]

Amid increasing global competition, these districts continue to be marked by relatively low unemployment;[^34] local rather than foreign firm ownership; and a relative lack of hierarchical domination of smaller suppliers by larger firms, signaling a continuation of horizontal ties and interdependencies among the firms. In addition, district firms have tended not to relocate out of the region, opening plants abroad primarily to complement and expand, not replace, local production.[^35] Moreover, the firms have proven capable of incorporating new information technologies in their production and design. The linkages and networks thus replicate for the district firms the strengths of large corporate structures, and strengthen their capacity for flexibility and innovation (ibid.).

The literature further suggests that pursuit of “strategic alliances for innovation, research and development” is a crucial factor in the market success of cooperatives, especially given their tendency to favor smaller-scale production (Smith 2001: 58). Supporters argue that the collaborative cultures of cooperative firms enhance their ability to develop such alliances (Huet 2000; Levin 2001). Indeed, the cooperative movement’s network of vertical and horizontal linkages at the regional, national and international levels may be one of its “greatest assets,” although, as supporters observe, this network remains “under-utilized” (Levin 2001: 4).

**La Lega.** La Lega is a vast network of individual cooperatives and associations, including about thirty specialized institutes and consortia. The various consortia and their member co-ops retain full autonomy vis-à-vis one other (Smith 2001). At the same time, the network is characterized by numerous backward and forward linkages, e.g., between the consumer and agricultural sectors, and among the housing, manufacturing and construction sectors. These linkages serve to expand the cooperative market and cultivate the growth of individual member cooperatives (Ammirato 1996). For example, the construction cooperatives build the housing co-ops, while the labor and agricultural co-ops sell their products in the consumer co-ops (Smith 2001). Indeed, with 4.6 million members, the consumer co-ops provide “secure market access for over 1,000 products

[^32]: Emilia-Romagna, one of Italy’s 20 regions, arguably constitutes a cooperative industrial district in itself (Smith 2001).

[^33]: Other features are the division of labor among firms, which tend to specialize in one phase of the production process; and the region’s social environment, with its rich local institutional infrastructure and social capital (Berger and Locke 2000).

[^34]: In 1998, unemployment levels in these districts were about one-third the national average; Emilia, for instance, had a rate of 3.4 percent, compared to 10 percent in France and 8.5 percent in Germany (Berger and Locke 2000).

[^35]: In large part, this is because a high percentage of such firms are producer cooperatives, which tend to be more firmly rooted in their communities than conventional firms.
MCC’s network also seeks to connect producers and consumers, by positioning the retail system to sell goods produced by its producer cooperatives. MacLeod (1997: 24) observes that MCC’s effort to link producers and consumers in one complex organization distinguish it from “most North American co-operative retail stores which see their role as simply delivering cheaper groceries and thereby helping the consumer.”

In addition, MCC has pursued inter-firm cooperative strategies with non-cooperative firms. In the early 1990s, having concluded that sponsoring new start up ventures was no longer a viable strategy for promoting job growth, MCC decided that it could best advance its job creation goals (i.e., preserve local Mondragon employment), while simultaneously addressing global market pressures, by cultivating substantial ties with non-cooperative firms (Clamp 2000). Accordingly, MCC has developed its own

36MCC observers stress that “while the official corporate chart of MCC might resemble that of an ordinary holding company, in reality all the authority was held by the individual co-ops, so that the apparent ‘base’ of the pyramid was really its (functional) apex” (Smith 2001: 46).
multinational supply and distribution networks, establishing 38 overseas plants in fourteen countries, including Thailand, China, India, Morocco, Brazil and several Eastern European countries. These companies accounted for nine percent of MCC’s total industrial production in 2003 and more than 6,000 jobs. MCC also has undertaken numerous R&D partnerships and joint ventures with capitalist firms in Spain and abroad (Clamp 2000; Huet 2000). MCC’s international sales account for a quarter of its total sales of $9.6 billion. Moreover, MCC has developed an active outsourcing policy, sending a substantial amount of work to its wholly-owned subsidiaries, as well as to cooperative enterprises outside of its network (Smith 2001). In addition, MCC cooperatives conduct work outsourced by conventional firms.

Co-op Atlantic. Like MCC, Co-op Atlantic has created a structure linking consumer retail cooperatives and producer agricultural cooperatives. This structure has served to strengthen the cooperative network’s market position vis-à-vis multinational competitors (Webb 2003). For instance, Co-op Atlantic (CA) recently developed a new “agro-food” strategy that seeks to strengthen the network of cooperation among these partners and increase their business ties, by creating a “new set of products and labels that promote local production, food ‘traceability’, and trust” (ibid.). Specifically, to assist the ailing Atlantic beef industry, which suffered from inconsistent quality, CA and beef producers entered into a partnership agreement whereby CA sells high-quality feed grains (i.e., no animal by-products or renderings) to the producers, who agree to abide by specified feeding regimes and animal care. CA then purchases all the beef that the farmers produce and promotes it in CA stores as premium quality beef. The system allows each cow to be traced back to the calf, which addresses growing consumer concerns about food quality and safety, as well as ethical production. The alliance strategy has been so successful that CA expanded the partnership to chicken and pork producers, and created a house brand that features a variety of food items, such as potatoes, peanut butter and apple pies, all of which are sourced locally.

Co-op Kobe and Seikatsu Club. A core element of the Japanese consumer cooperative system is Sanchuko (“direct transaction”), whereby consumer cooperatives contract directly with producers for the supply of fresh food products. Sanchuko is based on the principles that consumers should know the origin of the product, the name of the producer, and the methods of production, and that the consumer-producer relationship should involve communicative and personal exchanges. By eliminating the “middle man,” the need for costly advertising, and overproduction and waste due to uncertain

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37 Including personnel working in MCC’s corporate and sales offices abroad, and workers in Eroski shopping centres in the south of France, MCC’s workforce abroad numbered 8,064 people at the end of 2003, comprising twelve percent of its total corporate workforce (MCC website).

38 Mondragon officials acknowledge that the rapid increase of MCC foreign subsidiaries with non member workforces threatens cooperative organization. However, they tend to justify use of this internationalization strategy by arguing that it preserves MCC jobs (Smith 2001; Clamp 2000). As friendly critics have urged, Mondragon might stem such degeneration by gradually converting its overseas plants into cooperatives, or by securing from its joint-venture partners buy-out rights to facilitate later conversion (Huet 2000; Clamp 2000). Smith (2001) notes that there is active debate about installing a profit-sharing system, in which workers would receive the same profit share as co-op members, albeit not the membership rights.
consumer demand, the system improves efficiency, stabilizes and lowers prices, and benefits both producers and consumers: producers, by assuring them that the goods that they produce will be sold and thus providing them with a secure livelihood; and consumers, by providing them with a stable supply of safe, high quality and reasonably-priced products. In addition, the system helps reduce the dominance of the wholesale food and distribution system by major food companies.

Another example of consumer-producer links is the Seikatsu Club’s “independent control and auditing system,” which resembles Co-op Atlantic’s agro-food strategy. SCCCU has established safety, health and environmental principles, which producers must ratify before joining the cooperative network. An independent control committee, consisting of Seikatsu members and producers, revises the environmental and quality control standards on an ongoing basis. An auditing committee, composed solely of Seikatsu Club members, conducts “mass independent auditing” of the production sites (SCCCU website).

Finally, the Japanese consumer cooperative system has stimulated a high degree of cooperation among regional co-ops, e.g., the exchange of information regarding the operation of the joint purchasing system. The JCCU has supported the creation of ten joint business organizations cutting across prefectural boundaries that offer business assistance to member firms and engage in joint procurement of goods.

The Co-operative Group. Consumer cooperatives increasingly have engaged in vertical integration between primary cooperatives and wholesale federations, a strategy that centralizes planning and purchasing functions in the federations and streamlines distribution, thus enhancing cooperative competitiveness (Kurimoto 1996). The Co-operative Group, as well as a number of the Japanese consumer cooperatives, has pursued such a strategy.

Credit Cooperative/NGOs

SANASA. SANASA’s network approach to organizational development, as reflected in its federated structure (see section on “scaling-up”), extends to other facets of its work. For instance, SANASA’s “second pillar” of development is marketing, which reflects the federation’s view that finding and developing markets for producers is critical to the movement’s success in a globalized economy (Fischer et al. 1999). To market the products produced by community members or organizations, SANASA initially organized small producers into groups to increase their bargaining power, as well as linked producers and consumers through the primary societies. In 1996, it created the SANASA Producer Consumer Alliance Ltd. (SANEEPA), a community-controlled institution that solves its members' production and marketing problems through such activities as technology transfer, marketing, business consulting services and information sharing. For example, in the marketing arena:

SANEEPA has forged partnerships with wholesalers, exporters, and developmental marketing agencies, to improve links between local, national, and overseas markets. SANEEPA also arranges for short-term loans directly from [SANASA Development Bank Ltd.] to purchase produce for resale to wholesalers
in the city. SANEEMA offers better prices than the producers are able to obtain in the local market, arranges for the goods to be shipped to a buyer, and makes a profit by adding a mark-up (Fischer et al. 1999: 45).

**SEWA.** Like SANASA, SEWA has determined that helping its members succeed in a globalized economy requires expanding their access to domestic and international trade opportunities, as well as providing access to training. In 2000, the organization set up the SEWA Trade Facilitation Center (STFC), which uses state-of-the-art management tools and information technology to link artisan rural micro-enterprises with the national, international and virtual marketplaces. In its first 18 months, the STFC’s annual sales grew by 62 percent and its exports by 311 percent over the previous year (Treacy 2003). SEWA claims that artisans, who constitute the majority of STFC’s shareholders, have benefited greatly from STFC interventions. For instance, salt workers, who had received Rs. 1 per 100 kg from traders prior to the Center’s assistance, now sell directly to salt companies for Rs. 30 (SEWA 2001 Annual Report).

The STFC’s success led SEWA to enter into a joint venture with the Gujarat government to create the SEWA Gram Mahila Haat, which is designed to improve the competitive position of rural agriculture, livestock and handicraft producers by boosting the quality of their production and minimizing the share of profits accruing to middlemen. The organization provides training, helps producers establish direct linkages with the market at the district level, and assists them in marketing their goods in national and international markets.

Finally, for workers facing unemployment and low wages on account of changing market trends and increased competition, SEWA pursues a job placement and training approach. For instance, it established the SEWA Employment Centre to train informal sector workers for new employment opportunities and to connect them with these opportunities, as well as government benefits.

**Kagiso Trust (KT).** The KT-Group’s development strategy is based on intersectoral co-operation and partnering with business, government actors, local and international investors and financing bodies, and the Black South African community (Kalegaonkar and Brown 2000). KT uses its strong connections within the Black community to link businesses with government officials and Black markets. In exchange for these connections, business partners share with KT their experts, offer business management knowledge and skills, and sometimes provide KT with loans without collateral—assets which KT uses to enhance its for-profit business ventures (ibid.).

**BRAC.** As noted above in the section on job creation, BRAC has developed several programs that seek to develop markets for its members involved in various production and retail activities. For instance, BRAC’s marketing arm, Aarong, connects rural artisans to consumers by offering the artisans such services as design assistance, quality control, warehousing, marketing and retailing. Aarong has cultivated strong export ties with a number of countries, including France, Italy, New Zealand, Japan, Canada and the United States. BRAC’s Vegetable Export Program seeks to link low-income farmers with international markets, as well as provide technical training and modern agricultural inputs. BRAC’s Dairy and Food Project established a liquid milk
plant (now the second largest in Bangladesh), and developed an integrated system of milk procurement that links rural dairy farmers and quality dairy producers to urban markets. Finally, in addition to providing members with loans, training and production inputs, BRAC’s sericulture program ensures the development of distribution networks by linking village rearers with reeling and production workers; helping VO members set up village nurseries for the mulberry saplings; and operating a marketing outlet for rearers by creating a chain of production facilities linked to the Aarong handicraft shops.

Local Government Enterprise

Township and Village Enterprises. The TVE phenomenon has sparked an intense debate between an “experimentalist” camp and a “convergence” camp, the former viewing TVEs as new, non-capitalist innovations and the latter viewing them as stepping stones to real private ownership (Sachs and Woo 1997). The current process of mass privatization of rural industrial enterprises has complicated the debate, leading scholars across the spectrum to predict that TVEs as currently organized will play a diminished role in future economic development.

Nonetheless, while private ownership is increasing, local government ownership remains the norm (Ho et al. 2003; Sun 2002). Moreover, a number of scholars have argued that TVEs are “likely to remain a significant feature of the Chinese economy, albeit in new organizational and ownership forms, for some time” (Harvie 2000: 71). This is because TVEs possess a variety of adaptive features that arguably will enable them to meet competitive pressures within China’s increasingly market-oriented economy. Perhaps the most significant feature is the TVE’s flexibility and autonomy in governance and management structures that have supported its pursuit of “complex interconnected networks involving science, industry and local government” (ibid.: 98). Increasingly, TVEs have become involved in joint ventures with state-owned enterprises (SOEs) and foreign firms, creating “affiliations and alliances involving scientists, engineers, academics and business entrepreneurs” (76). These organizational networks and alliances enable the TVE to gain access to technology and to compete successfully against the larger and more powerful SOEs. Moreover, as Harvie posits, there are numerous reasons that foreign companies would find TVEs “ideal partners” (he describes at least twelve benefits that TVEs can offer foreign firms) (92-94). Thus, it remains to be seen whether the evolving, organizational capacity of TVEs to develop business and R&D partnerships, as well as to cultivate their international orientation, also will enable TVEs to compete successfully against private sector firms.

5.2. Coalitions and Social Alliances

Cooperatives and NGOs also may construct social and political coalitions with public and private partners at the local, national and international levels. Such “social alliances” with civil society actors, such as trade unions, employers’ associations, NGOs and new social movements, can serve to further both the cooperative and social development agenda (Levin 2001).

SEWA. SEWA confronts the challenges of globalization by engaging in organizing and political influence strategies, as well as network and marketing strategies.
For example, SEWA’s analysis of the construction sector, which employs some 13,000 SEWA members, showed that increasing mechanization and entry of multinational firms in the industry was causing massive unemployment among unskilled casual workers (Jhabvala and Kanbur 2002). In addition to conducting training to upgrade these workers’ skills, SEWA has sought to organize them to enlist their demands and lobby for policy reform. Joining forces with other groups, SEWA pressured the state around issues of identity and attendance cards, insurance coverage, and payment of minimum wages and medical expenses; this pressure resulted in the passage of the 1996 Construction Workers Protection and Welfare Act. SEWA also joined the Construction Industry Development Council to advocate for construction workers at the national level.

SEWA also engages in numerous alliances with regional and international NGOs. For instance, it established the SEWA Trade Facilitation Centre (STFC) (described above) for southern Asia through an alliance with the South Asian Association for Regional Co-operation. In 2003, the STFC chair founded a multinational trade association based in London, the Global Trade Facilitation Centre, which is designed to strengthen and expand market opportunities for informal sector, grassroots producer groups, particularly those involving women.

Seikatsu Club Consumers’ Co-operative Union (SCCCU). The SCCCU actively promotes the goal of fair trade across international borders. Currently, the network participates in a citizen’s trade initiative with farming communities on the Negros Islands in the Philippines, whose economy collapsed after sugar prices fell in the mid-1970s. In contrast to efforts by various relief agencies to revive the Islands’ export-led growth—which efforts have failed to address issues of food self-sufficiency and wealth disparity—a local self-help organization has worked to sustain local populations by promoting group farming of basic foods, including production of pesticide-free bananas. SCCCU, along with other Japanese cooperatives, annually imports several hundred tons of these bananas directly from the producers (Evanoff 1998).

La Lega. La Lega has pursued a “policy of alliances” with political parties, trade unions, small business, and other cooperative associations to pressure the state to pass legislation favorable to the cooperative sector (Ammirato 1996: 307). Ammirato also notes that the alliances that La Lega has forged at the consortia and enterprise levels with both private and state enterprises have enhanced the economic competitiveness of La Lega cooperatives by increasing their access to knowledge, expertise, venture capital, public works and new markets (ibid).

5.3 Reorganizations and Mergers

In conjunction with the foregoing network, alliance and coalition-building strategies, a number of the cases reviewed here have pursued various reorganization strategies to enhance their competitiveness. For the most part, these strategies involve the retention of full equity ownership (see Clamp 2000). Forming consortia and creating spin-offs are two such methods of reorganization (as discussed above and in the section on scaling-up). Additional methods include forming mergers with other organizations and creating corporate, federated structures in order to create synergy, enhance efficiency.
and speed-up decision-making. Several of the cases demonstrate this range of responses to the changing competitive environment.

**Mondragon Co-operative Corporation.** Since the 1980s, Mondragon has reorganized itself numerous times, culminating in its 1991 reorganization into a corporate, federated structure (the MCC), with a central headquarters and various divisions that group firms by sector. This change has facilitated the system’s inter-firm linkages, while increasing its visibility and market reach, especially to international markets. Like that of non-cooperative firms, this structure centralizes Mondragon’s decision-making concerning its national and international investment, the degree to which it promotes its businesses, and the establishment of quality standards across cooperative firms—all of which have succeeded in obtaining ISO 9000 certification (Clamp 2000).

As Smith (2001: 56) argues, “the corporate structure at the MCC level has performed many of the roles of the specialized Le Lega consortia. Indeed MCC itself can be characterized as a multi-firm joint venture writ large.” This structure includes a technical training school and the new Mondragon University; a social insurance group (Lagun-Aro); a legal, administrative and financial group (Ularco); an export group (Larkide); and various R&D partnerships (Ikerlan and Ideko). Moreover, MCC has pursued an active policy of mergers and acquisitions.

**La Lega.** La Lega—as well as MCC—responds to firm failure by merging the weak firms with other cooperatives, which largely accounts for the relative rarity of conventional co-op “exit,” as well as job loss, in these systems (Smith 2001: 45). La Lega’s merger approach also serves to further its long-term strategy of encouraging the creation of very large, “flagship” cooperatives in various sectors of the economy (ibid. 45; Ammirato 1996). Its purpose in developing such large institutions is to “establish a strong position in the market, facilitate exporting, provide for quantity discounts in purchasing inputs, meet the public relations goal of showing that co-ops can be successful large as well as small enterprises, [and] provide a leading role in ad hoc bidding consortia” (Smith 2001: 53).

**Co-op Atlantic.** Severe competition from two multinational corporations that engaged in predatory pricing helped eliminate Atlantic Canada’s family grocers and wholesalers. To avoid a similar fate, twenty-eight failing, independent cooperative societies of the Co-op Atlantic system voted in 2000 to merge into a multi-store cooperative. The new Consumer’s Community Co-operative (CCC) is Canada’s second largest food cooperative, with more than 51,000 members by December 2001 (an increase of 6,000 since the merger) (Webb 2001; 2002). The elimination of duplication (i.e., 28 pre-merger cooperatives had “28 lawyers, 28 floor-cleaning contracts, 28 financial institutions, 28 sets of invoices”) has resulted in substantial savings, and CCC’s agreement to purchase almost all of its groceries from Co-op Atlantic has helped increase the latter organization’s purchasing power and the competitiveness of all the region’s cooperatives (Webb 2002).

**The Co-operative Group.** Over the last half-century, consumer cooperatives in the United Kingdom have undergone a massive process of amalgamation: in the 1950s there were 1,000 consumer co-ops, down to about 50 in 1994, the largest two of which
(CWS and CRS) accounted for almost half of the aggregate retail turnover (Kurimoto 1996; Birchall 2000). In 2000, CWS and CRS merged to form Britain’s largest mutually-owned retailer, changing its name to the Co-operative Group in 2001.

III. SUMMARY OF LESSONS LEARNED

As the foregoing discussion argued, the diverse array of community-based asset-building models highlighted in this report evidence a capacity to create jobs, achieve significant scale, maintain financial sustainability, and respond successfully to globalization—all factors contributing to program (and firm) success and sustainability.

All of the cases have expanded considerably both the size and the impact of their programs and enterprise efforts. Most now reach millions of members—some reach tens of millions—and all have moved beyond their initial focus area to take on new service and/or production activities. Several cases also have sought to scale-up their impact by influencing the behavior of government, market and civil society actors and by promoting institutional change.

As the literature makes clear, efforts to enhance organizational sustainability underlie all successful attempts to move to scale. Perhaps the most important step to ensuring growth and viability is the creation of organizational mechanisms of continuous learning. Most of the cases discussed here have pursued two especially innovative methods for achieving such learning—creating federated or “nested” structures and spinning off independent organizations.

Regarding the issue of employment growth, all the models have demonstrated the capacity and the motivation to prioritize employment creation. Despite the predictions of conventional economic theory that cooperative firms will not expand, the cooperatives profiled here have built impressive job creation records. The non-governmental organizations likewise have created significant opportunities for self-employment and income generation. The micro-lenders have expanded their mission beyond credit provision to include employment and business generation; and the community development organizations have undertaken for-profit business enterprises to generate revenue and create jobs.

All of the cases described in the report are working to achieve financial sustainability, and most have done so. Of those that continue to receive donor subsidies, namely the microfinance organizations, the programs nonetheless appear to operate within “hard budget constraints,” that is, they operate efficiently and cost-effectively, while achieving depth of outreach and reaching significant scale. Signaling an important relationship between ownership form and sustainability, the most successful microfinance organizations follow cooperative banking principles, i.e., they rely on internally generated savings rather than donor funds as the source of loan capital, while using donor funds to build the institutional and self-management capacity of client groups. Regarding the community development organizations, the for-profit business ventures of these organizations demonstrate the viability of generating an independent income stream that can contribute to their goal of achieving greater financial sustainability while furthering
their social missions. Finally, among worker cooperatives, the most successful have managed to thrive without outside subsidies, despite often fierce global competition; key factors contributing to their financial sustainability are their federated structures and their participation in larger cooperative networks—organizational innovations that also help these institutions scale up while responding successfully to globalization.

Finally, several of the approaches to organizational restructuring that the cases have followed—building federated structures, spinning off independent entities—also have proven to be effective mechanisms for meeting the challenges of globalization. Other innovative strategies that the cases have pursued to confront the new competitive pressures include building inter-firm alliances, interorganizational networks, and coalitions with public and private actors at the local, regional and international levels. In addition, many cases have engaged in joint venturing strategies with firms and organizations at all of these levels.

IV. PROFILES

1. Mondragón Co-operative Corporation

When José María Arizmendiarrieta, a Basque priest, arrived in Mondragon in 1941, the town had been devastated by the Spanish Civil War. Arizmendi (as was known) spent the next decade as a community organizer, establishing a technical school based on democratic principles. In 1956, under his guidance, five engineering graduates of the school founded Mondragon’s first cooperative, Ulgor (now Fagor), which manufactured oil cooking stoves.

As Ulgor grew from 24 worker-owners to 143 in two years, it needed capital for expansion. Aware that traditional banks’ lack of investment in cooperatives was a major reason for their failure, Arizmendi helped establish the cooperative’s own banking system, the Caja Laboral Popular (CLP) in 1959. A cooperative itself, the CLP aimed to attract local financial resources and invest them in new enterprise creation for the development of the Basque region (MacLeod 1997). Its owners were Caja workers and associated cooperative enterprises (under Spanish law, non-co-ops now may join). As the co-ops agreed to deposit all pension funds, workers’ share capital, and social security funds in the Caja, the Caja had a strong financial base from which to develop new enterprises and save ailing ones.

By the early 1990s, the Mondragon system had evolved to become the Mondragón Co-operative Corporation (MCC), a consolidated group of 168 employee-owned enterprises in several countries, with over 68,000 workers, more than $9 billion in annual sales, and total assets of over $16 billion (by the end of 2003). MCC is the largest company in the Basque region and the seventh largest in Spain. Its supermarket chain (Eroski) is the largest Spanish-owned retail food distributor, and its firms are the leading producers of domestic appliances and machine tools in the country and the third largest supplier of automotive parts in Europe. Moreover, its cooperatives are twice as profitable as and more productive than the average Spanish corporation (Cheney 1999).
Corporate and governance structures.

Mondragon’s cooperative enterprises are distributed among MCC’s three main groups—financial, industrial and retail/distribution. The financial group handles banking, insurance, and social welfare programs; its two largest enterprises are the CLP, which now focuses on traditional consumer and business banking, and the Lagon Aro (social security). The industrial group comprises seven divisions, whose companies manufacture an array of goods, such as automotive parts, bicycles, escalators and household appliances. Within the distribution group are commercial distribution and agricultural-food enterprises, the largest of which is Eroski. A corporate center dedicated to developing new and existing cooperatives provides technical assistance to the enterprises (a role formerly played by the CLP); it is comprised of several research, training and teaching centers, including Mondragon University, which has 4,000 students.

MCC is managed by a General Council, comprised of vice-presidents of each of the groups and divisions, as well as directors of the central corporate departments; a President (CEO) chairs the Council. The Council is accountable to two governance bodies: the Co-operative Congress and its Standing Committee. The Congress is MCC’s highest authority; composed of 650 representatives elected by each cooperative, it establishes overall strategies and policies, and has assumed the unifying role that the CLP earlier played. The Standing Committee is MCC’s administrative body, comprising eighteen members elected by leadership of the groups and divisions; it appoints the President and approves the President’s nominees for the Council. These governing bodies rely on two sources of funding: the Central Inter-co-operative Fund (FCI), which is financed through annual contributions by member companies amounting to ten percent of their net earnings; and the FEPI education, research and co-op development fund, financed by two percent of members’ net earnings. In addition to financing MCC, these funds have assumed the development role that the CLP had played.

MCC distributes its annual profits as follows. It donates ten percent for educational and community needs; retains at least 20 percent as collective reserves, investing them in joint and inter-cooperative projects (such as training and marketing); and deposits the remainder (up to 70 percent) in members’ individual capital accounts to pay out salaries (Cheney 2001/2002). Workers also may use these funds as collateral on CLP bank loans, which charge low interest.

Values at Work

Mondragon’s values stem from a long tradition of institutionalized cooperation and democratic decision making. Its ten cooperative principles were inspired by the Rochdale Pioneers39 and are consistent with the International Co-operative Alliance Statement on Co-operative Identity. These bedrock principles are so integral to

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39In 1844, the Equitable Pioneers of Rochdale, England organized cooperatively to develop an alternative to hierarchical business structures, transforming the traditional model of individual self-help into one of community self-reliance. The Pioneers manufactured and sold simple foods and household staples and made sales only in cash to avoid trapping workers in debt. Women enjoyed equal rights within the enterprise. Member-owned, the cooperatives elected their officers on the basis of one-person, one-vote, and distributed profits to members.
Mondragon’s functioning, Smith (2001) argues, that they may be taken as exogenous in the network’s organizational adaptations to changing economic conditions. The principles are as follows:

1) **Open admission** means that all who accept the basic principles and are capable of performing the requisite labor may join the cooperative. 2) MCC is a *democratic organization*, whose highest authority operates on the basis of one member, one vote, and whose governing bodies are all democratically elected. 3) The *sovereignty of labor* ensures that MCC is committed to job creation and distributing wealth according to the labor provided. 4) The *instrumental and subordinate nature of capital* provides for a limited return to capital, distributing wealth in proportion to workers’ labor, not rank or share. 5) **Participatory management** seeks worker self-management and requires the development of channels for participation, transparent information, worker input, and promotion from within. 6) To promote *payment solidarity*, MCC traditionally followed a three to one ratio of payments for the highest to the lowest paid. Recently, to stay competitive and attract top candidates, MCC (following a change in International Cooperative Alliance principles) adopted a policy of paying executives at 70 percent of the market rate for private sector salaries. 7) **Intercooperation** entails cooperation between MCC’s network co-ops and with cooperatives worldwide. The network supports the creation of new co-ops and support bodies, as well as various forms of risk pooling to achieve economies of scale and scope. 8) MCC seeks *social transformation* by reinvesting its profits in new co-op creation, supporting community development initiatives and managing various social welfare programs. 9) The *universality* principle expands MCC’s mission to include joining with the larger cooperative movement to work for world economic development and justice, manifest in MCC’s membership in various national and international organizations. 10) MCC views the *education* of co-op and community members as an essential element of social transformation, which it promotes through its numerous education and training programs.

**Challenges of Scaling-Up in a Global Era.**

From the outset, tensions between corporate and cooperative values required Mondragon’s founders to balance cooperative integrity with market demands. Changes in the global competitive environment have heightened these tensions. Upon joining the European Economic Community in 1986, Spain experienced an influx of large, multinational firms. To compete, Mondragón ended its policy of opening new co-ops and began funneling resources toward the expansion of already existing enterprises. Mondragon then convened a series of cooperative congresses to address the changing economic climate. Noting that most of their manufactured products were in direct competition with those of multinationals, co-op leaders first debated the feasibility of finding different markets or changing product lines. Concluding, however, that Mondragon had invested too heavily in its key industries to change course, they decided to confront the competition head-on through a strategy of adopting corporate features.

One of the most significant changes occurred in 1990, when co-op leaders formed the MCC to enhance the cooperative network’s ability to compete in a global marketplace. Upon MCC’s formation, oversight of the network shifted from the CLP to
the Co-operative Congress. MCC coordinates distribution and marketing for all three sectoral groups (financial, industrial and retail/distribution), in contrast to the more decentralized management structure that had existed under CLP leadership.

Perhaps the most controversial change has been the development of a multinational supply and distribution network. MCC now operates traditional businesses in low-wage countries such as Mexico, Egypt, Thailand and China, none of which are cooperatively owned or managed. Within Spain as well, MCC has established firms with non-member workforces, frequently via joint ventures with capitalist firms. Within its traditional cooperatives, MCC also has increased its reliance on wage labor. Despite its original commitment to limit non-member employment to 10 percent of the total workforce, its non-member workforce now comprises about 30 percent of the total (Whyte 1999). MCC notes, however, that many non-members are only temporarily excluded from membership, and become members within several years.

Observers have decried many of these developments, especially MCC’s failure to develop a plan to convert its capitalist factories to cooperatives (Huet 2000; Kasmir 1996). As MacLeod (1997) observes:

The cost of functioning in the capitalist, multinational system is the loss of their original democratic philosophy. The MCC solution involves going between the horns [of a dilemma]: they maintain some co-operative ideals wholeheartedly (job creation, indirect democracy, priority for locally produced goods) while regretfully postponing others in order to survive (direct forms of democracy, all enterprises organized as co-operatives, no wage labor).

MacLeod notes that, in stark contrast to traditional capitalist enterprises, whose mergers and acquisitions typically result in layoffs, MCC’s strategic outlook continues to promote job creation: its 1997-2002 five year plan, for instance, projected the creation of 8,800 new jobs. Arguably, then, MCC pursues a strategy of growth through increased foreign investment in order to expand local production, not displace it. As MacLeod argues, MCC’s orientation continues to push outward, to the local community, not inward, to its members.

Moreover, debate within MCC about such problems as job growth without member expansion, along with the search for alternative solutions, is ongoing. In 1998, the Social Council of FAGOR (Mondragon’s first and largest cooperative) officially criticized MCC’s drift from various cooperative principles (Whyte 1999). Recently, MCC’s last Co-operative Congress, held in May 2003, adopted a resolution urging all

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40 On its website, MCC attributes this development to: “the lack of adequate co-operative laws in the areas into which we have expanded; the fact that many new companies have been set up as part of a joint venture with other partners; and, above all, the fact that the creation of co-operatives requires the existence of co-operative members who understand and are committed to the co-operative culture, something which is impossible to obtain over a short period of time and in such a wide variety of locations.”

41 Huet (1997) argues that many MCC members appear to have accepted these strategies only because the system’s streamlined procedures have lessened opportunities for democratic decision making; and because they lack confidence that they can provide alternatives, especially given that current strategies have enabled MCC to compete successfully with conventional firms both locally and worldwide.
relevant organizations “to study and develop formulas which would enable non-member employees to participate in the ownership and management of their companies, similar to that which occurs in co-operatives” (MCC website). MCC has a precedent for successful conversion in a company called Gespa: In 1998, the Eroski Distribution Group offered non-member Gespa employees the chance “to participate in the capital and management of their place of work,” which the majority of non-member workers readily accepted.

2. **Emilia-Romagna**

   While Mondragón elected to confront globalization by competing with multinationals head-on, Italian firms have responded to globalization by serving niche markets and providing high-quality, customized goods and services that only flexible, highly-skilled workforces can offer, and that only information derived from close social relationships can generate. A driving force behind the success of these relatively small firms, both cooperative and traditional, are the vast, decentralized networks linking manufacturers, trade associations and unions. Besides fostering continual innovation, these networks enable member firms to achieve economies of scale and to share information and services, such as market forecasting, purchasing of supplies, and provision of financial services.

   In addition to its flexible manufacturing networks, Italy’s cooperative sector also has played an important role in helping the country compete internationally, while preserving small manufacturing and promoting democratic participation in the economy. Operating in all sectors and numbering in the tens of thousands, the cooperatives employ a significant number of workers; nationwide, there were 342,000 worker cooperative members in 2002 (Philip 2003).

**The Emilian Model**

Emilia-Romagna, a region south of Milan, had been an impoverished agricultural area. After a long and steep loss in mass-production jobs, the region rallied in the post-war years, especially the 1970s, to rebuild the local economy through the growth of small business and a dense network of small and medium-sized, craft-based and industrial companies. In particular, many new businesses organized themselves as worker or producer, consumer, and agricultural cooperatives, the latter including truckers, farmers, and produce retailers. Indeed, the region has the highest concentration of cooperatives in the country and one of the highest in Europe (Restakis).

   The region’s revival has been striking. Experiencing the fastest growth of any region in the country, Emilia Romagna had the highest per capita income among Italy’s twenty regions in 2000, and ranked tenth among the 122 regions of the EC. At 3.3 percent (in 2002), the unemployment rate is one of the lowest in the nation and the EC, while the employment rate is the second highest in Italy. The percentage of women working in Emilia-Romagna is the highest in the country. While cooperative activity accounts for about 10 percent of the country’s GDP, it accounts for 20 percent of Emilia Romagna’s (one commentator estimates this figure to be 40 percent, see Restakis) (Wentz 2002).
Government Support

Italian cooperation thrives largely because of local and national political support. The Italian constitution insists on support for cooperatives due to their social contribution. Considered nonprofit organizations, Italian cooperatives are not taxed. Surplus does not go back to members, but must be reinvested in creating new democratic employment opportunities. In addition, three percent of each cooperative’s surplus goes to a fund that supports the development of new cooperatives. In 1997, Emilia Romagna cooperatives received 3,000 billion liras of support.

While significant, government assistance should not be overemphasized as an ingredient of successful, “third way” alternatives. Mondragón built a successful movement without government help and in the face of government hostility toward the region, although the government presently is moving to provide greater institutional support. As Huet (1997: 17) argues, the “outpouring of government support [in Spain] is at least as much a result of co-operative growth as a cause.”

Global Challenges

For many, the appeal of the Emilian model lies largely in the sense of trust and reciprocity which the horizontal ties between firms generate. The civic spirit is said to encourage collaboration, common purpose, and a sense of connection and regional identity, which in turn increases participation in the networks (Putnam 1993). In explaining why more firms do not leave the region to avoid paying its high wages, Fitch (1996: 20) credits both the widespread existence of producer cooperatives, which serve to root capital and jobs in their communities, and the interdependent nature of the economy:

Small businesses are constituent parts of an economic organism that's developed over the past fifty years with government infrastructural assistance: financing, low rents and real services. If a small firm were to move outside the region, it would be like a hand suddenly detached from its body.

Nonetheless, globalization has had an impact on the industrial districts, leading many firms to increase their production abroad. After the fall of the Berlin Wall, for instance, Italian firms became the third largest investors in Central East Europe, after German and American investors (Berger and Locke 2000). Growth strategies involve mergers, takeovers, and the setting up of subsidiaries, so that networks have developed both local and global characteristics (Rinaldi 2002). Yet, what is striking about the industrial districts is their resilience. While foreign capital has made inroads in local economies, multinationals do not have a large presence: “Ownership in the districts remains overwhelmingly in local hands” (Berger and Locke 2000: ). While the number of large enterprises has grown, reflecting an increased need for enhanced coordination among firms, there has been no trend toward a reorganization of production within firms or networks: firms have not shifted en masse toward greater vertical integration, nor have larger firms tended to dominate smaller suppliers (Rinaldi 2002; Berger and Locke 2000). Finally, while Italian firms have moved production activities outside of Italy, certain
regions like Emilia Romagna have experienced relatively little relocation. Nationwide, a very significant amount of production remains in the country, especially when compared to other societies:

Today, Hong Kong optical manufacturers have moved almost all their manufacturing to China, while the Italian producers of eyeglasses, who make a quarter of the world’s glasses and three-quarters of the brand-name eyeglasses in the world, still rely largely on production in the districts. The largest of the Italian district firms, Luxottica, described dismantling the U.S. plants of the recently acquired Ray-Ban firm and reassembling the equipment in Italy. Luxottica is also moving production that had been outsourced to China back to Italy (Berger and Locke 2000:).

In raising the question of whether there is an “Italian road to globalization,” Berger and Locke (2000) note that most firms that moved some production abroad did so “in order to expand—and not replace—local production capacity. The activities abroad were conceived as complementary to the production that continues in the district.” For example, firms may choose to produce components of a good at lower cost abroad, but they continue finishing the goods in Italy. Ultimately, the authors suggest, production remains primarily local because “the gains from lowering labor costs are outweighed by the advantages of remaining located where new ideas emerge and are debated, where the experimentation of others constantly offer lessons, and where new trends and directions can be instantly felt” (Berger and Locke 2000).

Social Cooperatives

Beginning in the late 1970s, an innovative form of cooperative emerged to compensate for the deficiencies of the Italian social welfare system, which was undergoing a process of downsizing. Initially focused on providing services to people with disabilities, the new “social cooperatives” now deliver social services, health care, education and recreational services, as well as create employment for certain categories of disadvantaged persons. Numbering about 4,500 in 1998, these social co-ops had a total membership of 100,000 people, 75,000 of whom are paid employees, and 15,000 of whom are volunteers (Borzaga and Santuari 2000).

Legislation extended formal recognition to the cooperatives in 1991. The law established two categories of social co-ops: Type A, which provide social, health and education services to the elderly, minors, and the physically challenged; and Type B, which provide for the employment of the disadvantaged, such as the mentally ill, homeless, and drug addicts through training in the industrial, agricultural, business and social service sectors. After the law’s passage, the number of these enterprises skyrocketed, from under 2,000 in 1991 to 4,500 in 1998, representing about four percent of the total cooperative movement. The social co-op’s greater visibility under the law contributed to this growth, as did the increasing practice by public authorities of contracting out social services to these new entities. Indeed, while members provide the
co-ops with the necessary start-up capital, contracts with state or regional entities provide the bulk of the co-op’s operating expenses.

Roughly 70 percent of the co-ops are Type A and 30 percent are Type B. The former have 75,000 members, 6,000 volunteers and 60,000 paid employees; the latter have 25,000 members, 3,000 volunteers and 15,000 employees. The employment figures represent about ten percent of total cooperative employment. The average size of the co-ops is 40-50 members, about 25 of whom are paid workers. At least 30 percent of Type B employees must come from marginalized and disadvantaged groups, such as the elderly, the physically challenged, and youth, as well as from excluded groups, such as prisoners, former prisoners, and drug addicts (Borzaga and Santuari 2000; Vanek 2001).

This new model of organization differs from traditional cooperatives in two key respects. First, while a traditional co-op’s primary aim is to its members, a social co-op is oriented to the local community, and especially to its less fortunate members. Indeed, the 1991 law provides that the purpose of social co-ops is “to pursue the general community interest in promoting human concerns and the integration of citizens” (Borzaga and Santuari 2000: 26). Second, to perform their mandated activities, the co-ops are required to have a diverse membership, comprising such categories as workers, users, volunteers, investors, and public officials; for this reason they are often termed “multi-stakeholder” cooperatives (Vanek 2001).

Given their relatively small size, the social co-ops derive strength from participating in geographic consortia that link all the co-ops in a locality or region. These consortia provide direct services such as technical, assistance, training and bid preparation. In turn, the consortia are linked through a network of about 40 regional and national consortia. These second level cooperatives and federations engage in policy advocacy on such issues as funding levels, service priorities, service evaluation, state oversight and regulation, and contractual matters (Restakis).

3. The Co-operative Group

The Co-operative Group (Co-op Group) is a UK-based cooperative founded to provide goods and services to local retail cooperative societies. While it still pursues its initial aim of supporting these societies by supplying them with the Co-op Brand of goods and offering them buying, marketing, distribution and other specialty services, it also has grown to become a family of businesses in its own right. Now the largest retail cooperative business in Europe, the Co-op Group operates, among other things, Britain's largest farming enterprise, Britain's largest funeral services operation, one of the top five travel services, one of the largest insurers, a bank, a chain of garages, and over 1,100 retail outlets encompassing supermarkets, hypermarkets, department and convenience stores.

The original Co-op Group was launched in 1863, twenty years after the Rochdale Pioneers established their cooperative, and in accordance with their values. In 1993, CWS joined three other societies to form the Co-operative Retail Trading Group, a larger federation allowing the societies to coordinate their marketing, buying, and distribution resources. This partnership now encompasses sixteen societies that not only help each
other operationally, but also operate several joint ventures, including a travel business and a funeral standards council. The venture has been quite successful, distributing dividends worth £12 million to corporate members and £21 million to customers in 1999. In April 2000, CWS merged with the second largest cooperative retailer, Co-operative Retail Services, to form the Co-operative Group (CWS), Ltd. At year-end 2003, the Co-op Group employed more than 75,000 people in the UK, with sales of over £8 billion and consolidated operating profits of £327 million. It has over three million individual consumer members (with an active membership base of around 900,000), as well as 144 corporate members, all of which are cooperatives representing millions of consumer members.

Members of the Co-operative Group Family

Retail: The Co-op Group operates over 1,600 food stores, from full-scale groceries to convenience stores, and manufactures and distributes its own brand food lines. It operates 39 department stores, including an Internet-based domestic appliances store, with home delivery. In addition, it assists member co-ops with marketing, buying, and distribution.

Banking: One of the fastest-growing banks in the UK, the Co-operative Bank was the first to offer clients free checking, extended hours at all of its branches, free credit-cards for all members for life, an ethical policy delineating with whom the bank will and will not conduct business, 24-hour and Internet banking, and access at thousands of ATM machines and post offices nationwide.

Insurance: The Co-operative Insurance Society (CIS) is the UK’s only cooperative insurance company and a leader in the industry, insuring 5.4 million customers. It currently administers more than £20 billion of its customer’s money.

In April 2002, the Co-op Group formed Co-operative Financial Services (CFS) to bring the Co-operative Bank and CIS under joint leadership. CFS is one of the largest financial services organizations in the UK, with six million customers and one in nine eligible UK adults holding a CFS product.

Agriculture: Farmcare is the UK’s largest commercial farmer, with over 35,000 acres. The co-op farms use environmentally-friendly farming methods while remaining competitive.

Pharmacy: With approximately 300 Co-op pharmacies, National Co-operative Chemists (NCC) is the fourth largest pharmacy operator in the UK.

Funerals: Funeralcare is the UK’s largest funeral director, conducting 85,000 funerals a year and operating two coffin factories and a national memorial masonry service.

Automotive: The Priory Motor Group sells over 16,000 new and used cars annually throughout the country. It covers fifteen manufacturer franchises ranging from Daewoo to BMW, and is made up of 27 dealerships on 15 separate sites.

Property and Development: The Co-op Group manages a portfolio of investment worth over £190 million. Its property management business offers professional consulting services to member businesses regarding property and development interests.
Engineering: Syncro Engineering operates several engineering and manufacturing businesses.

Dairies: ACC Milk produces prize-winning cheeses, butter, ice cream, and other milk products, and is a leading supplier to the cooperative’s food chains.

Travel: The UK’s largest independent travel agency, Travelcare is known for its responsible retailing, including the “Traveler’s Right to Know,” which aims to provide travelers with information not offered in typical guides, such as local customs and cultural aspects of the destination country.

Cooperative Principles and Values

Although large-scale in size and operations, the Co-op Group remains dedicated to practicing representative democracy. Individual members vote directly for representatives to 50 area committees, which then elect representatives to eight regional boards. The area committees also monitor local trading performance, network with the larger community, and elect seventeen directors to the Co-op Group’s Board (from members of the regional boards). The Co-op Group’s corporate members (retail societies and other co-ops) elect an additional eleven members to the Board. To ensure that the Board is representative of the Co-op Group’s current customer base, each member organization is allotted a certain number of votes based on its annual trade with the Co-op Group (i.e., not one organization, one vote). Growing out of the Co-op Group’s unique history, this complex representative process was designed to balance the interests of two very different types of members. Although the democratic structure is less direct than that of many co-ops, it has played an important role in safeguarding the co-op from corporate takeovers (see next section).

To demonstrate its commitment to its customers, employees and society, the Co-op Group has delineated "Eight Promises” (e.g., to serve everyone, provide high quality services and accurate information, to respect customers’ rights, and offer quality products), which it attempts to meet by sponsoring socially conscious projects and programs. For instance, to realize its promise to serve everyone, the organization initiated "Access for All," whereby it inspects its stores on an ongoing basis to ensure that they are accessible to young people, seniors and the physically challenged. To demonstrate its allegiance to the community, the Co-op Group not only supports local voluntary projects and organizations, but also provides funds to regional co-ops for socially responsible endeavors. In line with its pledge to the environment, the cooperative is energy efficient, sells recycled products, collects recyclable materials and goods at its larger stores, and ensures that Co-op Brand products (and all of their ingredients) are never tested on animals.

Moreover, the Co-op Group is committed to establishing a people-based business model for other retailers to follow. Having commissioned Gallup to question 30,000 UK residents on a range of ethical issues, the Group currently is devising innovative polices and programs to address public needs and concerns. It also has developed leaflets to inform customers about its merchandise, as well as shelf tags to indicate which products meet customers’ ethical standards. Finally, the Co-op Group is especially dedicated to enriching children’s education experiences. For example, it created several handbooks
geared to younger children that discuss topics ranging from personal health and citizenship to the environment and economic and industrial activities.

The Attempted Takeover Bid

While the 1980s, in the UK and elsewhere, was characterized by widespread privatization of public services, the 1990s was marked by a wave of demutualization of member-owned businesses, especially financial service and insurance mutuals, and cooperatives (Birchall 2000). Although the consumer co-ops were viewed as less vulnerable to conversion than others (several of the largest farmer owned businesses had already converted by mid-decade, and others were considering doing so), in 1997 the (then) Co-operative Wholesale Society (CWS), Europe’s largest consumer cooperative, was forced to defend against a hostile attempted takeover.

As critics noted, from the 1970s onwards, the CWS and CRS became major retailers largely by purchasing ailing retail societies. Despite the financial success of its banking and insurance businesses, CWS was underperforming. Market analysts, displeased that several attempts to merge CWS and CRS had failed, declared CWS ready for takeover. In 1994, the Board decided to sell its underused food manufacturing factories to a young entrepreneur, Andrew Regan, who later resold them. However, the Board rejected Regan’s offer to buy CWS’ non-foods businesses, which he intended to asset strip. As rumors of a hostile takeover bid swirled, Regan formed an investment company, Lanica Trust, to handle the overall sale and a subsidiary to acquire the various businesses; he also obtained backing from several banks. Regan’s “public relations machine” then began applying pressured on the Board to reconsider his offer. The Board in turn formed a team to defend the CWS’ cooperative status against any hostile bid. Before the bid was made, however, a scandal involving fraudulent behavior on the part of Regan, his associates, and several CWS executives emerged to foreclose the possibility of any future bid.42

Birchall (1998) argues that the takeover might have succeeded but for the illegal conduct and CWS’ complex ownership structure, which is divided between individual members of its retail societies (organized into eight regions) and almost 150 businesses. To guard against a future takeover—which, Birchall argues, remains a possibility for CWS or one of its retail societies—the CWS Board introduced several rule changes, such as instituting higher thresholds for the numbers required to call special meetings. Even prior to the takeover attempt, CWS had embarked on what is perhaps its most important strategy, namely, establishing a new image based on the group’s cooperative nature and

42 “First, CWS officials discovered that a mysterious payment of 2.4 millions had been made into an offshore account as part of a deal between Regan and two CWS managers for his factories to supply CWS with “Co-op Brand” goods. Then, as a result of the two managers being put under surveillance by a private investigation company hired by CWS, one of them was filmed handing over a box of information to Regan and his associate in a car park. CWS then gained a court injunction preventing the use by Regan of confidential information gained illegally, and the bid had to be postponed. The CWS manager then admitted handing over masses of information, which had been circulated openly by Regan’s company, Lanica, to 17 banks and companies in the City. In the resulting scandal, CWS obtained apologies and financial compensation from Lanica’s backers, and had the injunction made permanent, thus ending all chances of the bid being revived” (Birchall 1998).
promoting democratic member participation. As Birchall (2000) notes, the Lanica Trust bid was never placed before the CWS membership, whose loyalty thus remains untested. Numerous critics have charged that the cooperative has suffered a degeneration of membership, which fails to reflect its customer base, and that the democratic governance system has failed to evolve (Parnell 2000). In response, the current leadership has undertaken a host of efforts designed to buffer the Co-op Group against conversion and usher in a more democratic and effective era in Europe’s consumer cooperative movement. These efforts include emphasizing the cooperative “difference” and the unique advantages that such an identity can bring; requiring full member committees and contested elections, as well as full information-sharing among divisions and boards; increasing worker involvement and active discussion about permitting worker shareholding; introducing a dividend card; and instituting innovations in the group’s ethical and environmental policies.

4. **Co-op Atlantic**

Unemployment rates in Atlantic Canada, the Maritime region, are higher than in the rest of the country, and many Atlantic Canadians must migrate when work is scarce. At the same time, the enormous surplus produced in the region through fishing, forestry, mining, and agriculture have been exported outside the region. Envisioning a new path for itself, the region has begun taking steps to develop a sustainable, self-directed economy based on cooperative values and principles. Co-op Atlantic, a cooperatively run umbrella organization for the Maritime region’s many co-ops, is at the center of efforts to build a new social economy.

Early last century, the Antigonish cooperative movement, based in Nova Scotia, aimed to build a cooperative economy that would bring self-sufficiency to the people of the Maritime provinces. The Maritime Livestock Shipping Board, a small cooperative, was founded in 1927. The Board provided headquarters to livestock shipping organizations and helped them gain independence from the government. In 1930, the organization changed its name to the Canadian Livestock Co-operative and undertook new activities, such as grocery wholesaling, auditing and insurance programs. The co-op was incorporated as Maritime Co-op Services, Ltd. (MCS) in 1944, at which time it cut all ties to the federal government. In the 1960s, cooperatives in Newfoundland and the Magdalene Islands in Quebec joined MCS, leading the organization to change its name to Co-op Atlantic in 1978, in order to reflect its new membership composition from all Atlantic provinces.

Co-op Atlantic is a central wholesale cooperative that is owned by local cooperatives in the Atlantic region of Canada, including Labrador, Newfoundland, New Brunswick, Nova Scotia and Prince Edward Island. It supplies its members with groceries, produce, meats, dry goods, general merchandise, hardware, petroleum, building supplies, and agricultural products and equipment. These members include 116 retail consumer cooperatives and agricultural co-ops; agricultural societies and buying clubs; housing, fisherman’s and funeral co-ops; a publishing co-op; and 33 other associated cooperatives. As such, Co-op Atlantic and its network of cooperatives aims to
meet the needs of producers, consumers, workers and other stakeholders within a single cooperative system (Zimbelman 1994).

Co-op Atlantic employs more than 600 workers (collectively, the cooperative and its member co-ops indirectly employ over 5,000 people); and serves over 200,000 households in Atlantic Canada and parts of Quebec. It is the second largest regional cooperative wholesaler in Canada, with reported net income of $2.1 million and consolidated sales of $508 million (in 2002). In terms of the landmass that it covers, Co-op Atlantic is the country’s largest food co-op.

Any organization incorporated under provincial or federal cooperative legislation that is able to use the products that Co-op Atlantic provides is eligible for membership. To maintain membership, each cooperative must purchase a minimum of $50,000 worth of products from Co-op Atlantic annually. Should the value of the products purchased fall below the $50,000 minimum, the co-op is entitled to become an associate member, which requires a $100 annual fee. Associate membership confers upon the member the right to receive notices of meetings, such as the Annual General Meeting, but does not permit voting or delegate rights.

Co-op Services

Co-op Atlantic provides service to its members in the following nine areas. Each area is governed by an executive team that is accountable to the CEO, who in turn must report to the Board of Directors: Food Merchandising/Distribution oversees such areas as food retailing, transportation, imports, and trade shows. General Merchandise supplies member co-ops with merchandise from around Canada and from cooperatives in China. Members can view over 13,000 items online. Agriculture purchases local grains and other agricultural supplies for members. Retail Operations and Petroleum assists with store renovations and retail displays, distributes gas and diesel products to service stations, and provides home fuel needs. Real Estate and Development provides property services to its retail and housing co-ops. Human Resources and Corporate Affairs handles labor relations, public affairs, salaries, and customer service training. Marketing Communications manages advertising, prints and distributes the newsletter, and promotes educational and environmental programs. Information Technology includes database management. Finance provides expertise in financial management to member co-ops.

In addition to providing these member services, Co-op Atlantic acts as a financing vehicle for the development of consumer co-ops and the renovation or expansion of co-ops having difficulty securing other financing. Since the early 1980s, only three out of thirty direct charge co-ops have failed, a rate that compares favorably to that of the private sector, where eight out of ten small businesses fail in the first five years.

A “Proposal for Renewal”

Confronted by the rapid growth of its corporate competitors (such as Wal-Mart), the growing economic dependency of the Maritime region, and concerns that the cooperative movement was insufficiently interdependent and cooperative, Co-op Atlantic’s Board of Directors and member co-ops drafted “Resolution 11: A Proposal for Renewal” in 1991. Designed to raise awareness of and renew commitment to the idea of
the cooperative model as an alternative to the capitalist one, Resolution 11 proclaimed that “the dependency of our region and our communities is the single biggest threat to the co-operatives of Atlantic Canada,” and that a special concern was the “inconsistency between Co-op Atlantic’s co-operative nature and that dependency” (from “Proposal for Renewal,” excerpted in Zimbelman 1994).

To encourage Atlantic Canadian communities to take control of their economy, the resolution called for the development of new co-ops, especially worker co-ops, the expansion of existing co-ops, and the linking of all enterprises in a “community-controlled co-operative economy.” It also called for greater responsibility toward the environment and enhanced communication and education. To achieve the goal of “integrated co-operative development” or “inter-co-operation,” the resolution proposed the establishment of community cooperative development councils and the implementation of capital formation strategies. As for the latter, the movement has taken steps to promote the Atlantic Co-operatives Development Fund, which incorporated in 1987. Itsself a cooperative whose members elect a board, the Fund aims to build investment capital for the movement by offering three types of shares (voting, non-voting and debentures), and to focus initial lending on the development of retail co-ops, with eventual expansion to other types of co-ops.

Challenges from Corporate Giants

Thirty years ago, cooperative and family grocery stores, supplied by family owned wholesalers, were the industry norm. Today, only the co-ops remain, and they are under siege by two giant, multinationals intent on undercutting prices in order to capture the market. That these corporations engage in predatory pricing is evident in the region’s lower cost of groceries: accustomed to higher prices than the rest of Canada, Atlantic Canadians now can purchase for $95 a bag of groceries costing $100 elsewhere (Webb 2000). This competition has robbed cooperatives of the ability to position themselves as discount grocers, which they did until a few years ago.

When nearly 30 percent of retail food co-ops in the Co-op Atlantic system began experiencing serious financial difficulties, the movement decided to meet the challenges head-on by restructuring. To achieve economies of scale, 28 ailing co-ops relinquished some autonomy and formed a multi-store cooperative, called the Consumer’s Community Co-operative (CCC). Neither a federation of cooperatives nor a second tier cooperative (like Co-op Atlantic), the new entity is a single cooperative, albeit one spanning four provinces. With sales over $170 million and more than 50,000 individual members, the CCC now is Canada’s second largest food cooperative.

The CCC intends to conform to the new Canadian Co-operative Act, which, for the first time, permits cooperatives to have multiple members: consumers, who invest a relatively small amount of capital; workers, who invest a greater amount; and other cooperatives. Eventually, the CCC Board will have directors representing the cooperative’s workers, consumers and Co-op Atlantic. The CCC also has begun creating local councils in each local area, pursuant to the organization’s bylaws. These councils will hold local membership meetings to elect delegates to the council, develop resolutions
for Co-op Atlantic and CCC annual meetings; and promote member education and member relations, as well as community involvement and linkage.

While still in its early stages, the new cooperative already has achieved savings of about one half of one percent of sales, and this figure is increasing. Webb (2002) attributes these savings to synergies produced by the merger, explaining that prior to the merger, there was much duplication of effort among the 28 co-ops, with their “28 lawyers, 28 floor-cleaning contracts, 28 financial institutions, 28 sets of invoices, etc.” He notes that, in light of the apparent viability of the CCC model, the Co-op Atlantic community has begun the discussion of whether the merger strategy makes sense for the movement’s other member cooperatives.

In the meantime, Co-op Atlantic has initiated other strategies to meet the challenges of globalization. For instance, its new “agro-food” strategy seeks to strengthen the network of cooperation linking its consumer retail and producer agricultural cooperative members; this network itself serves to strengthen the movement’s market position vis-à-vis its multinational competitors. Like other fair trade initiatives, Webb (2003) opines, the agro-food strategy offers “hope for what the future might be”:

One can imagine an international co-operative purchasing system that, while encouraging local and co-operative procurement, has the resources to create ecological, health, safety, and social justice standards for food products and the strength to ensure that suppliers meet those standards. One can picture international co-operative brands reflecting co-operative values and principles and applying them in a thoughtful way that people trust. One can envision new co-operative-to-co-operative business relations based on openness and trust.

5. **Co-op Kobe**

While cooperative activity has waned in some parts of the world, including the United States, it is thriving in Japan, where nearly 23 million members—30 percent of all Japanese households—belong to consumer cooperatives across the nation. Merging the Japanese values of group cooperation and active community involvement with Western notions of individualism and self-help, Japan’s consumer cooperative sector has sought to create alternative production, consumption, social and political networks in a society marked by both strong business and strong government (Evanoff 1998; Morrison 1995). Originally established to provide safe and reliable goods, the cooperatives now engage in a wide variety of mutual help activities around such issues as the environment, world peace, and women’s political activism.

Although little known in the United States, Co-op Kobe has become the world’s largest co-operative, with over 1.45 million members in 2002.\(^\text{43}\) Its growth over the last half-century is particularly remarkable given that Japan’s business and legal environment has been relatively hostile to cooperatives. Small retailers, for instance, have waged

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\(^{43}\) In 1996, Co-op Kobe employed nearly 16,000 employees and operated 175 retail stores and dozens of other facilities, such as three resort villages and eight activity centers for members (Grubel 1999).
numerous battles to prevent co-ops from opening, and longstanding law (such as the 1948 Consumers’ Livelihood Co-operative Society Law) prohibits cooperatives from expanding beyond prefectural boundaries, as well as non-members from using cooperatives. The latter restriction arguably hinders the ability of potential members to make an informed decision about whether to join the cooperative.

Like many of its counterparts around the world, Co-op Kobe traces its roots to the Rochdale Pioneers in the mid-1800s, although mutual assistance societies to alleviate hunger and poverty existed in Japan as far back as the 1600s. A significant force in the development of modern Japanese cooperatives was Kagawa Toyohiko, a social activist and Christian leader, who, like Arizmendi (see Mondragón, above), was well-versed in international community development issues and sought an alternative to both capitalism and communism. Kagawa helped found a number of cooperatives, including the Kobe and Nada co-ops (established 1921), which merged in 1945 to form the present day Co-op Kobe. He also organized the Co-operative League of Japan, which in 1951 became the present Japanese Consumers’ Co-operative Union (JCCU), a member of the International Co-operative Alliance. Kagawa served as the JCCU’s first president, and his philosophy continues to inspire the organization’s activities to this day (Grubel 1999).

The co-op’s membership grew most dramatically in the 1960s and 1970s, when high economic growth helped usher in a host of economic, social and environmental problems, such as inflation, pollution, and contaminated products due to insufficient quality control. Consumers viewed the cooperative movement as a vehicle to address these concerns, while securing safe, reliable and affordable goods. The movement has since expanded to include medical, insurance, housing, university, student teacher, workplace, and neighborhood cooperatives.

Two institutional innovations—the joint buying system and the linking of producers and consumers—have been instrumental in the movement’s growth and competitive success. Co-op Kobe, along with the Seikatsu Club Consumers’ Co-operative Union (profiled below), helped spearhead these innovations, which have evolved into highly successful business models. Each innovation is discussed below.

The Han system of group purchasing

Financial difficulties and a series of labor-management disputes, which climaxed in the 1970s, led Co-op Kobe’s management to undertake a massive reorganization. A key change involved instituting a joint (or group) buying system based on the Han (“small unit”), traditionally a rural and male-dominated form of social relations (Matsuoka et al. 1994). In the cooperative context, a Han consists of five to ten neighbors who join together for mutual assistance and group purchasing. The vast majority of Han members are women, many of whom are stay-at-home mothers. Each week, the Han places an order of co-op items with co-op delivery staff, who distribute the order the following week, along with new catalogues and order sheets. Han members

44 Kagawa advocated seven principles: mutual sharing of benefits; a humane economy; sharing of capital; elimination of exploitation; decentralization of power; political neutrality; and an emphasis on education (Takamura 1995).
45 See Grubel (1999) for a history of these labor disputes.
share responsibility for gathering the individual orders, placing the collective order with the co-op, receiving the delivery, and sorting the items for pick-up by individual members. In recognition of these voluntary efforts, members receive a refund every six months based on the amount that the group ordered over that period (Grubel 1999).

Not all co-op members are organized into Hans; indeed, the ratio of Han members to total JCCU members was 34.5 percent in the year 2000 (although this ratio has increased steadily over the last several decades). Nonetheless, the turnover from non-store retailing has surpassed that of store-retailing (Kurimoto 2001: 16). As Kurimoto argues, moreover, the Han system plays a pivotal role in the consumer cooperative movement and gives cooperatives a competitive edge by “combining economic efficiency with active member participation” (ibid. 15).

Efficiencies flow from several features: The placing of orders one week prior to delivery eliminates the need for expensive, long-term storage and permits the just-in-time delivery of perishable items. Bulk purchasing and the elimination of expensive advertising generates additional cost savings, as does the voluntary (unpaid) nature of Han members’ efforts. Producers’ ability to adjust production according to actual needs helps reduce overproduction and waste.

Moreover, the Han system stimulates member participation by providing members a voice in organizational decision-making and a tool for organizing. For instance, Co-op Kobe’s eight business districts are divided into 92 localities, each of which has a steering committee of thirty to forty members. Han groups select representatives to serve on local steering committees, as well as on the Co-op’s board of directors. Committee activities include testing new products, giving feedback on co-op policy, and organizing group activities. To enhance member participation, the co-op offers courses on its organizational structure and on strategies for members to strengthen their role in decision-making. It also issues a weekly newsletter informing members of co-op activities, new products, and the organization’s financial health.

Although the co-op’s non-store operations continue to expand, the joint buying system is facing challenges from changing lifestyles and technological advances (Kurimoto 2001). In particular, more women are joining the paid labor force, thus shrinking the Han’s institutional base of stay-at-home mothers; a growing segment of young, internet-literate people tends to favor virtual communities over geographic-based ones (i.e., the Han); and online shopping is becoming increasingly popular. The joint buying system has responded by providing more individualized services, especially individual home delivery, and by introducing e-commerce. For instance, some co-ops are delivering individually-sorted goods to the Han groups, while others are delivering the group’s products to “joint mates” who are paid a small fee to deliver to their fellow Han members. The most far-reaching experiment has been individual home delivery, whereby the co-op delivers the products to individual homes for an added fee. Sales from this new system already have surpassed those from the joint buying system (Kurimoto 2001).

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46 Co-op members who decline participation in a Han group may still express their views by filling out lengthy questionnaires each quarter and by participating in a bi-annual member’s forum with co-op executives.
The internet holds great potential for cooperatives, perhaps more so than for traditional businesses: co-op members are regular customers, and co-ops provide products at their own initiative, own their own warehouses, manage their own distribution system, and have established an efficient payment system for non-store purchases (CJI 2000: 1-2). To take advantage of these efficiencies and strengthen members’ participation in the operation of the individual delivery and joint buying systems, many co-ops have introduced a variety of internet-based services. For instance, the JCCU established “e-Friends,” which allows members to shop online and communicate with other members about various services, volunteer opportunities and community activities. Some co-ops permit Hans to place their group orders online, a more convenient practice than the conventional one, since deadlines for submitting orders are looser and the process for adding items easier. There are plans to create “virtual Han groups” that will hold meetings online (CJI 2002: 1-3).

Sanchoku

Sanchoku ("direct transaction") is a system whereby consumer cooperatives contract directly with producers or agricultural organizations to supply fresh food products. The co-ops developed this system to ensure a stable supply of safe, high quality and reasonably priced products, as well as to reduce the dominance of the wholesale food market and distribution system by major food companies. In the cooperative movement’s early days, individual co-ops created their own forms of Sanchoku. Co-op Kobe was one of the philosophy’s earliest proponents, adopting it at its inception. By the late 1970s, the cooperative movement formally recognized Sanchoku and promoted it as an important means of co-op development (Ada 2000: 12).

Sanchoku rests on three fundamental principles (Ada 2000):

- The consumer should know the origin of the product and the name of the producer, which the co-operative can make clear through newsletters, product catalogues and supermarket signs.
- The consumer should know the methods of production. Contracts with producers specify such methods, e.g., restricting use of certain chemicals and artificial fertilizers that can harm the consumer and damage the soil. Co-op staff regularly visit suppliers to test products for quality compliance, and provide this information to members.
- The relationship between consumers and producers should be marked by communicative and personal exchanges. “Consumers are encouraged to visit suppliers’ farms and special events are organized by the co-ops to allow members to see how their food is produced. Producers are also encouraged to meet members and will visit city consumers and home-stay with co-op members’ families” (Ada 2000: 11).

As noted, Co-op Kobe adopted Sanchoku early on, driven by the urgent need to provide a dependable supply of food in the post-WWI years. The co-op made its first contracts with rice farmers in the 1920s, when it began producing its own products,
beginning with quality miso. Today, the co-op manufactures over 400 of its own brand name products, while contracting with outside vendors to produce additional items sold in its stores. To ensure quality, the co-op opened a laboratory so that it could test and evaluate products itself. It also has begun establishing ties with overseas producers, importing such items as organic bananas from a worker-owned plantation in the Philippines (Grubel 1999).

Outreach Activities

Working from its activist roots, Co-op Kobe has established several programs to improve the conditions facing co-op communities. One program, for instance, offers job training and employment opportunities for mentally and physically challenged individuals, while another provides the elderly and disabled with home care and companionship. In addition, the co-op has long been engaged in the international peace and development movements. For instance, thousands of co-op members have marched in antinuclear and peace demonstrations in Japan and around the world. In 1997, the co-op sponsored awareness campaigns in to educate members about land mines and the international movement banning their use (Grubel 1999).

In 1992, Co-op Kobe established the Environmental Foundation to increase environmental sensitivity in the prefecture. Foundation activities include checking toxicity levels in name-brand and Co-op-brand food items and monitoring acid rain levels. It urges consumers to reuse packaging and shopping bags, converts milk cartons into paper products, and recycles styrofoam into benches and shopping carts for the store. Dozens of other programs for adults and children aim to increase awareness of solar energy, composting systems, natural gas, and other earth-friendly practices.

The 1995 Earthquake

On January 17, 1995, the “Great Hanshin” earthquake struck the Kobe region, killing more than 6,000 people, injuring 40,000, and damaging almost 400,000 homes. In addition to the deaths of many of its employees and thousands of its members, Co-op Kobe suffered the complete destruction of its headquarters, including its entire computer system, the complete or partial damage of 45 other facilities, and ¥50 billion in losses. Yet the co-op began organizing relief and rescue operations immediately, a feat which many attribute to the co-op’s advanced networking infrastructure. For instance, “medical Hans” quickly mobilized to provide first aid and other medical assistance. In addition, the co-op resumed business operations almost immediately, in part to distribute essential goods and in part to reassure a panicked public, seventy percent of whose households were co-op members. On its first day, co-op staff opened 97 of its 155 stores, setting up temporary stalls outdoors when necessary; almost all stores were operating four days later. Since cash registers could not be used, products were sold in round figures, often at a discount. Despite severe transportation difficulties, co-op staff began delivering necessities to Han groups in the disaster area, as well as to residents housed in emergency shelters. Co-op Kobe also created a volunteer center with eight regional branches to support volunteer activities, such as preparing meals, visiting shelters, and raising rescue
funds. All these actions stand in sharp contrast to the relatively slow response by the Japanese government, which the public heavily criticized.

Once the emergency subsided, the co-op undertook a comprehensive evaluation of its performance to assist its own rebuilding efforts. For instance, it recognized Han membership as a critical resource for effective earthquake response and has undertaken steps to strengthen that system.

6. **Seikatsu Club Consumers’ Co-operative Union**

The Seikatsu Club Consumers’ Co-operative Union (SCCCU or Seikatsu Club) is an association of environmentally activist, consumer cooperatives based in Tokyo and active throughout Japan. A member of the Japanese Consumers’ Co-operative Union, the Seikatsu Club aims not only to provide its members with quality items at reduced prices, but ultimately to promote a community-centered economy based on “local production for local consumption” (Evanoff 1998: 4). It also is one of the most politically viable citizen’s groups in the country (Gelb and Estevez-Abe 1998). For its efforts to promote an anti-consumerist lifestyle, empower women, protect the environment and improve workers’ conditions, the Seikatsu Club received the Right Livelihood Award (known as the alternative Nobel Prize) in 1989.47

The Seikatsu (“lifestyle” or “living”) Club has a total membership of 250,000 people, most of whom are women. Members belong to one of 22 affiliated consumer cooperatives, located in fifteen of Japan’s prefectures. The cooperatives in turn belong to the SCCCU, which oversees the development, purchasing, distribution and inspection of consumer food and goods; produces educational material; and administers public relations, international activities and a mutual assistance fund. In addition, the network includes over 400 affiliated worker’s collectives, founded by various consumer cooperatives, as well as eight associated companies, such as a milk factory. Together, SCCCU’s enterprises had an annual turnover of US$610 million and accumulated funds of US$17 million (representing members’ annual contributions) at the end of 2002.

The Seikatsu Club began in 1965, when several young activists organized 200 women (mostly homemakers) in Tokyo to form a buying club for the daily purchase of 300 bottles of milk. Bulk purchasing permitted reduced prices, while direct transactions with small dairy farmers ensured high quality milk, free from toxic chemicals and harmful additives. Within two years, membership grew to 800, and the Seikatsu Club legally incorporated as a nonprofit cooperative in 1968. Over time, the cooperative extended the collective buying system to a range of other products, such as rice, fruit, frozen fish, household appliances, clothing, toys and travel tickets. It has developed its own product line of over 60 items, and owns several dairies, a beef ranch and a soap factory (Matsuoka et al. 1994). Since its founding, the Seikatsu Club has operated on the basis of two fundamental principles: democratic self-management and the close linking of producers and consumers (ICA 1995).

47In the Award committee’s words, Seikatsu has created “the most successful, sustainable model of production and consumption in the industrialized world.”
Member Participation

Like Co-op Kobe and other Japanese consumer cooperatives, the Seikatsu Club is organized into local Hans, groups of five to ten neighboring households which order and receive purchases, as well as discuss the cooperative’s proposals and policies. Seikatsu considers Hans to be “co-operative schools” for the development of a new “co-operative social fabric” (Matsuoka et al. 1994). It encourages members to view themselves as Seikatsu-sha, people who choose an autonomous lifestyle, become involved in the decisions that affect their lives, and assume responsibility for transforming the larger society (Evanoff 1998).

Each Han elects a representative to a Branch (consisting of 50 to 100 Hans), an independent unit that develops local cooperative policy; currently there are about 200 branches. Each branch elects representatives to the General Assembly, the highest decision-making body, which sets SCCCU policy and elects the Board of Directors (eighty percent of whom are women). In addition to participating in the organization through its representative structure, members also may join its numerous committees. For instance, each local group and prefectural society has a “consumption committee” that develops and refines Seikatsu-brand products. Other committees engage in public relations, events planning, and community building activities.

Consumer-Producer Linkages

Also like Co-op Kobe, Seikatsu follows Sanchuko principles in operating its production and distribution systems. By transacting directly with producers for the supply of its goods, the cooperative generates interdependencies between consumers and producers, which benefit the former, by providing them with a stable supply of safe, high quality and reasonably-priced products, as well as the latter, by assuring them that the goods that they produce will be sold, thus providing them with a secure livelihood. In conjunction with the bulk ordering and group buying systems (see description in Co-op Kobe profile, above), the sanchuko system helps improve efficiency and lower prices by eliminating the “middle man,” the need for costly advertising, and overproduction and waste due to uncertain consumer demand. In addition, these features help reduce the dominance of the wholesale food and distribution system by major food companies.

An alternative to consumerism

From its founding, Seikatsu has viewed itself as more than a buying club: it embodies an alternative to consumerism, rejecting items deemed harmful to members or the environment, and securing—or itself producing—items that it cannot obtain from the commercial market (Matsuoka et al. 1994). The cooperative’s “one product/one variety” principle illustrates its anti-consumerist approach. While large supermarkets typically stock hundreds of thousands of items, the Seikatsu Club carries only 2,000 (the majority of which are staple foods like milk, rice and vegetables). Moreover, it offers only one or two types of each product—one brand of soy sauce in one size bottle, say, rather than a dozen brands. In so limiting members’ choices, Seikatsu seeks to emphasize quality over quantity, lower costs, eliminate waste, and help members think critically about consumerist lifestyles. For instance, like the bulk purchasing system (see Co-op Kobe
profile)—and, indeed in tandem with it—the one-product system enables Seikatsu to hold down costs by streamlining production and distribution and eliminating competition between brands and the need for advertising (i.e., costs passed on to the consumer). Moreover, the system increases the cooperative’s purchasing power, since the co-op purchases each item in bulk (in comparison to conventional stores that usually order small amounts of any particular item); this increased power allows the co-op to demand safe, environmentally-sound, high quality products (Evanoff 1998).

From Pure Soap to Politics
In the early 1970s, Seikatsu Club members realized that the cleaning and laundry detergents that they were using chapped their hands, caused rashes on their children’s skin, and polluted the waters. A three-year education campaign ensued, which convinced other members to use pure soap rather than detergents and led the cooperative to stop selling the harmful product. In the cooperative’s Kawasaki branch, members succeeded in converting 117 schools from detergent to pure soap use by the early 1990s. In the Yamagata prefecture, members convinced the agricultural cooperative, which supplied them with rice, to stop selling and using detergents; the whitebait fish population, which had disappeared from local rivers due to pollution, soon replenished.

Yet, the pure soap movement encountered resistance at the municipal level, with local officials frequently ignoring petitions containing more than the requisite number of signatures. Consequently, Seikatsu Club members—mostly women and homemakers—decided to run in city council elections. The first Seikatsu member won office in 1979, inspiring the creation of the Seikatsusha Network Movement, the cooperative’s electoral arm. In 2002, 141 Seikatsu Club members were elected to local government with help from the Network. Many of these representatives have succeeded in placing issues of concern to Seikatsu, such as the use of environment-friendly soap and recycling, on the local agenda (Gelb and Estevez-Abe 1998). For instance, immediately upon taking office, one member-representative in Kawasaki pushed for the creation of a city-owned soap factory. In 1989, with financial support from citizens and political support from the mayor, the Kawasaki Soap Plant, a municipal enterprise, was launched (Grubel 1999).

Positive environmental impact
The Seikatsu Club aims to minimize its negative environmental impact at all stages of production and distribution. For instance, the cooperative buys only from producers who use organic farming techniques with a minimum of artificial pesticides and fertilizers. Because products travel relatively quickly from producer to consumer, chemical preservatives are unnecessary. The bulk ordering system helps ensure that all products will be sold, eliminating waste and superfluous packaging. In addition, most of the cooperative’s products are “earth-friendly” (e.g., biodegradable soap, organic produce) and packaged in recyclable materials.

Worker and Mutual Aid Collectives
Traditionally, middle-aged, middle-class Japanese women seeking to re-enter the workforce on a part-time basis lack employment opportunities (Marshall 2004). To meet
the needs of this sizable category of Seikatsu Club’s membership, the network launched Japan’s first women workers’ collective in 1992. Today, there are 400 such collectives, all worker-owned and administratively independent from the SCCCU. Employing 15,000 people, the collectives are engaged in such activities as food distribution, food preparation, catering, recycling, childcare and education (SCCCU website). In addition, the cooperative network has spawned a number of mutual aid cooperatives providing social services to members and the larger community. About 10,000 people throughout the Seikatsu Club movement are involved in providing home or institutional care for the elderly. The mutual aid cooperatives also provide care for the sick, the physically challenged and expectant mothers.

7. **SANASA Co-operative Savings and Loan**

The British colonial government of Sri Lanka (then Ceylon) created that country’s first thrift and credit cooperatives in 1906, largely to help wealthier farm families avoid the excessive rates of local moneylenders. Controlled by rural elites, the system flourished, growing to 1,000 cooperative societies by 1940. After independence in 1948, the national government created a network of multi-purpose cooperative societies to help modernize the countryside and address the needs of rural communities. Offering a range of services, including a subsidized rice ration, these heavily-subsidized societies drew support away from the original credit cooperatives, which struggling Sri Lankans viewed merely as savings clubs for older, male elites. By 1978, the credit cooperative movement had shrunk to 1,300 societies, from a high of 4,026 societies fourteen years earlier.

In the late 1970s, a group of community activists led by P.A. Kiriwandeniya, a committed Buddhist and student of Marxism and Gandhian thought, began working with local cooperative societies to “re-awaken” the “village banking” movement and make it relevant to the needs of the rural poor (Hulme et al. 1996). In 1978, Kiriwandeniya organized a seminar in his home village of Walgama, during which delegates from 79 primary societies pledged to create a District Union to “promote co-operatives, provide services and permit inter-lending between societies” (ibid.: 181). At a second seminar, attendees committed to opening membership to women and the very poor, and to pursuing participatory democracy at all levels. In 1980, the five existing district unions established the Federation of Thrift and Credit Co-operative Societies (FTCCS or SANASA, its acronym in Sinhala) to represent the credit cooperative movement to the government and donors, provide technical assistance and education/training, and create management systems.

Today, SANASA’s total membership numbers around 854,000 people, who are grouped into 8,400 registered primary societies, and its total population coverage exceeds three million people. In addition to providing savings and credit services, SANASA is involved in a range of cooperative and development activities, such as operating preschools, consumer shops and paddy mills, promoting environmental conservation and cultural events (e.g., festivals, children’s dramas), and pursuing sustainable agriculture.
Organizational and Governance Structures

SANASA is composed of a three-tier, federative structure of primary societies, district unions and a national federation, with governance based on a typical representative structure. Varying in size from 20 to 700 members each, the village-level primary societies are the credit cooperative movement’s base, providing savings, loans, and social welfare services to both members and non-members. Members elect the society’s board of directors, who hire staff and conduct daily business. They also elect the board of directors of the district unions. Composed of 200 to 600 primary societies, district unions provide onlending services to primary societies, as well as technical support, monitoring, mediation between borrowers and their primary societies, and education and training. To increase support to the primary societies, many district unions have formed an intermediate level, the cluster, which is composed of 20 to 50 primary societies. The boards of the district unions also elect the board of the national federation. This apex body serves as the movement’s liaison to government and the donor community, frequently serving as advocate. It also provides for interlending between districts and offers technical support to the movement, as well as education and training through its SANASA Campus for Co-operative and Development Studies.

Benefits of Forming a Federation

Kiriwandeniya (1997) specifies five major benefits that this multi-tiered structure confers on the movement. First, the upper levels play a key role in educating primary societies in cooperative principles and motivating them to become a “dynamic local force for development” (1997: 65). Second, both the federation and district unions traditionally have served as a central bank for the societies through interlending: the societies deposit excess funds with the district unions, permitting the latter to make loans to other societies; the district unions also deposit funds with the federation, which loans to other unions. This process enables the movement to disburse a high degree of its deposits as loans and thus use its resources more productively. It also redistributes resources from richer societies, which have larger savings, to poorer societies, in greater need for credit. Moreover, by depositing the funds within the movement, rather than in commercial banks, resources stay local. Finally, interlending creates income for the upper levels, via the difference in interest rates between savings and loans.48

The third primary benefit of SANASA’s multi-level structure is to facilitate the formation of societies in poorer areas and the inclusion of women and youth, thus diversifying membership. The upper levels assist the expansion effort by providing training and support, as well as subsidized loans to the poorest members. In addition, the federation promotes formation of women’s committees at the upper levels and women’s societies/clubs and children’s societies/youth clubs at the primary level. Fourth, the federated structure enhances the movement’s organizational capacity, enabling it to diversify its supporting activities. At the local level, clusters of primary societies have organized a variety of non-financial, community development projects across societies to gain economies of scale. For instance, they market local produce and sell local goods in

48 However, upon the creation of SANASA Development Bank, the federation no longer lends to the district unions, as discussed below.
retail outlets that they have opened (Fischer et al. 1999). At the national level, SANASA has expanded its activities in four key areas (the “four pillars”) of development: banking, production and marketing, insurance, and construction services, with communications representing an emerging fifth pillar (see below). Finally, the apex federation plays a key advocacy role in the effort to “create an environment conducive to the development of SANASA” (Kiriwandeniya 1997: 68).

Financial Management

SANASA’s primary societies are now completely self-funding. That is, they rely on internally generated savings, rather than donor funds, as the source of loan capital. Hulme and colleagues (1996) attribute much of the primary society’s financial independence to its ownership and management by members—i.e., the use of member savings as loan capital heightens the group’s commitment to the society’s effective performance. As such, it is ownership per se, and not just peer pressure, that helps ensure loan repayment.

The societies also derive financial strength from the externalities that the upper levels generate, namely from the federated structure’s capacity to act as a central bank, as noted above (Hulme et al. 1996). In addition, primary societies pursue several alternative strategies to enhance their financial performance. First, they have begun accepting non-member’s and children’s deposits, with members typically receiving a higher rate than nonmembers for their deposits. Second, they have developed a variety of income-generating, non-financial enterprises. For instance, they operate brick-making factories, paddy mills, carpentry shops and retail outlets for local goods and produce; offer English and computer classes; and purchase agricultural inputs in bulk (Fischer et al. 1999).

In contrast to the primary societies, both the federation and the district unions rely on donor funds (the latter to a lesser degree). However, the upper tiers spend the external funds directly on organizational infrastructure, education/training and capacity-building activities, which they deem essential for the movement’s long-term success. As Bennett and colleagues (1996) argue, subsidies used in this institution-building manner promote, rather than undermine, program ownership and financial sustainability. Moreover, the national federation created the SANASA Development Bank Ltd. (SDBL) as a key mechanism for achieving financial viability, as discussed below.

The Five Pillars of Development

Early on, SANASA’s founders determined that the credit cooperative movement must bring four areas of development (now five) under community control in order for the movement to achieve sustainability. The first “pillar” is banking. In 1997, SANASA created the SDBL as a specialized bank to support the primary societies by facilitating capital accumulation and interlending capacity among primary societies and district unions (Fischer et al. 1999). Responsibility for banking thus no longer resides with the federation. The Bank performs all of the main functions of a commercial bank, except for managing checking accounts and foreign exchange. Its shareholders include all three tiers of the movement, outside organizations and even international organizations (which
are nonvoting members). Individual members access the Bank through their primary societies. In its first year of operation, the Bank became profitable.

The second pillar is marketing. In 1995, SANASA created its own marketing and production company, the SANASA Producer Consumer Alliance Ltd. (SANEEPA), to find and develop markets for the goods that SANASA members and their communities produce. SANEEPA seeks to meet the production and marketing needs of its members by: 1) promoting technology transfer to improve the quality and quantity of agricultural outputs; 2) developing partnerships with wholesalers, exporters and development marketing agencies to strengthen connections between the local, national and international markets; 3) providing business consulting services (e.g., assistance with business plans or feasibility studies) to entrepreneurs on a fee-for-service basis; and 4) managing a database of marketing and production information relating to supply and demand conditions to help local producers match their production to market demand. To implement these strategies, SANEEPA has begun creating a number of Business Development Centers around the country that are linked electronically to a national information system in Colombo.

The third pillar of development is insurance. SANASA formed the All Lanka Mutual Assurance Organization (ALMOA) in 1992 to offer risk protection for individuals and grassroots organizations involved in rural development. ALMOA offers loan protection, guarantee of deposits, and property and life insurance, at rates that are affordable to the poor. By 1998, it had 410 institutional policyholders and 23,197 individual life insurance policyholders (Fischer et al. 1999).

The fourth pillar is construction. In 1998, SANASA founded Community Infrastructure and Resource Development Services (CIARD) to undertake community-based infrastructure development and maintenance projects. Finally, the most recent pillar involves communication. Viewing the general lack of access to market information within rural areas as a serious obstacle to development, SANASA created the Rural Agency Post Office Services (RAPO) to increase access to information. RAPO is creating rural post offices throughout the primary societies, and aims to make available courier, telephone, fax and email services around the countryside.

**Challenges from Home and Abroad**

As Kiriwandeniya (1997) observes, SANASA’s organizational structure is built on a network of partnerships between members and among primary societies and district unions. Yet, a key strength of the movement is that each level is fully autonomous, with operational management of the primary societies residing at the grassroots level, not the upper tiers. As both global competition and the sophistication of the activities of primary societies have increased, SANASA has had to balance the needs for greater management expertise, more efficient control and organizational growth with local interests and member participation and control.

SANASA also has had to carefully manage its relationships with government and international bodies, cultivating cooperation yet maintaining independence. SANASA had an especially difficult experience in 1985, when it participated in a “Million Housing Program” (MHP), financed by the U.S. Agency for International Development and
administered by the National Housing Authority, to help low-income Sri Lankans build low-cost housing, using credit. SANASA was reluctant to participate, as it had never before used outside funds for onlending, instead relying on member funds, which kept repayment rates and credit discipline high. Facing great political pressure, however, it agreed to participate, and soon realized its worst fears. In four years, its size more than doubled, as societies formed solely to take advantage of the MHP. Local and national politicians began demanding special privileges, and SANASA staff received threats from an anti-government group that had objected to SANASA’s involvement in the federal program. In 1988, USAID decided that repayment rates were too low (despite SANASA’s success at keeping the default rate to less than 10 percent), and refused to renegotiate its loan. Finally, soon before national elections in 1989, the Sri Lankan government decreed that the poor would not have to repay their housing loans, in disregard of SANASA’s principle of never writing off loans. Repayment rates plummeted, threatening the viability of the entire cooperative movement. Forced to spend much time and money rebuilding credit discipline and reinforcing cooperative principles, SANASA strengthened its resolve to avoid all programs with political influence and partner only with organizations willing to respect and follow the movement’s dictates.

8. **Self Employed Women’s Association**

   In the late 1960s, lawyer Ela Bhatt assumed leadership of the Women’s Wing of the Textile Labor Association (TLA), a union co-founded by Mahatma Gandhi fifty years earlier. There, she encountered numerous women working in the informal sector who lacked legal representation and protection against economic and social exploitation. Street vendors and hawkers in particular suffered police abuse and extortion, while migrant and temporary workers faced financial abuse by middleman and contractors. Bhatt helped organize hundreds of such workers to form the Self-Employed Women’s Association (SEWA), which won trade union recognition in 1972.

   As a union, SEWA’s primary aims were to improve the economic status of self-employed women by bargaining for higher wages and working conditions. Bhatt recognized, however, that a traditional labor union approach was inadequate to the task of helping women move beyond survival to achieve economic and political empowerment. Hence, she sought to create a new model of women’s development that would assist members in gaining full employment, i.e., work that provides income security, food security and social security; and self-reliance, i.e., the capacity, individually and as a

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49 Approximately 90 percent of all women workers in India are self-employed in the informal sector, which lacks any government regulation regarding wage structure, working hours and conditions, grievance management, and retirement and other benefits (Datta 2003).

50 An assertive advocate of unorganized women workers, SEWA clashed frequently with its parent organization, TLA, a traditional union representing formal sector workers. By 1981, relations between the two organizations had become so tense that TLA severed its ties with SEWA. After separation, SEWA expanded rapidly, pursuing a range of new initiatives ([http://www.sewa.org](http://www.sewa.org)).
group, to achieve economic, personal, and social autonomy. Joining advocacy and business development—or “struggle and development”—SEWA’s integrated approach incorporates strategies of the labor, cooperative, and women’s movements. Such strategies include unionizing informal sector workers, creating employment opportunities through cooperatives, providing access to credit, offering research and training in such areas as health care, child care and literacy, and encouraging women to seek policy changes at the local, national and international levels.

From an initial membership of 2,000 women in Ahmedabad, Gujarat in 1972, SEWA has expanded to over 694,000 women located in five Indian states (by year-end 2002). Its membership consists of four main categories of self-employed workers: 1) hawkers and vendors; 2) small business women/producers; 3) home-based workers, such as potters, weavers and bidi rollers; and 4) manual laborers and service providers, such as head-loaders and handcart pullers, domestic and laundry workers, and construction laborers. For its multidimensional approach to enhancing women's well being, SEWA has received numerous national and international honors, including the Right Livelihood Award (the “alternative Nobel Prize”) in 1984.

SEWA’s Governance Structure

Registered as a trade union, SEWA is open for membership to all self-employed women across India, for a small membership fee. Its governance is based on a two-tier structure of elected representation. In the first tier, the members of each trade elect representatives, in the ratio of one representative to 100 workers, who form the Trade Council; the Council in turn elects an Executive Committee of 25 members, every three years. In the second tier, members of each trade elect representatives to a Trade Committee, ranging in size from 15 to 60 members, which meets monthly to discuss the direction, strategies and activity plans of the campaigns, as well as undertake monitoring and evaluation. Each committee also elects a campaign team, consisting of four to ten members. The team gathers information on working conditions in different trades and geographical areas, and makes home visits to non-members to disseminate information about SEWA.

Advocacy through Union Activities

In the three decades since its inception, SEWA has organized informal sector workers in 74 different trades and occupations, such as incense stick rollers, readymade garment workers, paper pickers, and head load workers. In 2002, about one-third of its membership was urban and two-thirds rural. The urban union has undertaken numerous campaigns to improve women’s economic status by raising wages, securing benefits, improving working conditions, providing training, helping workers obtain licenses, and assuring freedom from frequent arrest or harassment by police and confiscation of goods. Union activities include organizing rallies, entering into negotiations at local, regional, national and international levels, lobbying for protective legislation and taking legal action. In national and international arenas, SEWA organizes large-scale protests, demonstrations and lawsuits aimed at encouraging public and private actors to assist the self-employed. For example, SEWA successfully lobbied the International
Confederation of Free Trade Unions to adopt a resolution entreatining members to provide services and support functions to each country’s self-employed.

In rural areas, where excess labor supply undermines the bargaining power of self-employed workers, the traditional union strategy of negotiating for higher wages often leads to employment loss among these workers. Hence, SEWA’s rural union has emphasized increasing employment opportunities for self-employed, rural women, most of whom derive their income from agriculture, livestock and handicrafts. SEWA’s main employment growth strategy involves creating cooperatives. In addition, SEWA addresses two major problems facing rural producers—low quality production and the high share of profits which middlemen appropriate—through various marketing and training strategies. Both the cooperative and marketing strategies are discussed below.

Advocacy through Campaigns and Supportive Services

To heighten interest in and strengthen the SEWA movement, SEWA encourages members to launch mass-mobilization, grassroots campaigns around trade-related or community-based issues. These campaigns unite women of different occupations and geographic locales around common concerns and motivate them to develop participatory action programs to solve collective problems. For instance, SEWA has mobilized large groups of women around water shortages, food scarcities, sanitation problems, unfair wages, environmental degradation and deforestation, lack of access to child care, and lack of recognition of and support for the work of midwives. In addition to bolstering SEWA’s membership and helping solve community problems, these campaigns demonstrate to women that they can be effective leaders and catalysts for change.

SEWA also seeks to empower women by helping them gain access to a range of supportive services, such as savings and credit, health care, child care, insurance, legal aid, housing and infrastructure, literacy, and communications and capacity-building. A particularly innovative program is Video SEWA, which instructs members on producing videos and teaching video technology to low-income, often illiterate, women. The videos depict the real-life problems facing such women and provide guides on solving everyday problems, such as how to undertake oral rehydration therapy (Datta 2003).

SEWA’s approach to service provision is to encourage recipients to organize and manage the service initiatives themselves. It also generally requires women to pay for the services, which enhances the financial viability of the initiatives and reduces dependence on subsidies and grants. In addition, several initiatives have organized into cooperatives, such as credit and savings, health care/midwifery services and child care. These cooperatives are operationally self-sufficient (e.g., SEWA Bank) or on the path to becoming so (SEWA website).

Development through Cooperative Activities

Since its inception, SEWA has supported the development of cooperatives to generate employment opportunities and help women build asset ownership and gain control and autonomy over their work. In 2002, there were 89 such organizations, with a total membership of 41,393 workers. These include 55 milk cooperatives, with 8,000 members; twelve service cooperatives, providing health care/midwife services, child care,
and wastepaper collection, with 2,000 members; eleven artisan cooperatives for weavers, bamboo workers, embroiderers, and other artisans, with 1,000 members; seven land-based cooperatives for tree growers and agro-forestry workers; and three vendor cooperatives for kerosene vendors and vegetable suppliers.

SEWA’s largest cooperative is the Swashrayi Mahila SEWA Sahakari Bank (SEWA Bank). Founded in 1974 to help members bypass exploitative moneylenders, it now has nearly 30,000 members, 200,000 depositors and resources totaling US$25 million; it also ranks as India’s largest microfinance organization in terms of business volume (Datta 2003). Owned by SEWA members, who elect its decision-making board, the Bank boasts a loan repayment rate of 95 percent and a higher profit margin than most formal banking institutions. It emphasizes savings to ensure financial discipline, and promotes clients’ profitable activities by helping them obtain market information and develop commercial linkages (Datta 2003). Moreover, it designs its services to meet the special needs of its clients. For example, it uses photographs rather than signatures for identification, since most clients are illiterate, and operates a “mobile bank” to improve access to bank services for women living in slums and rural areas.

In 1992, SEWA formed an apex-level federation of women’s cooperatives, the Gujarat State Mahila SEWA Co-operative Federation, now a member of the National Co-operative Union of India. The Co-operative Federation aims to strengthen the development of women’s cooperatives and bring them into the economic mainstream, by offering training in capacity-building and accounting, as well as marketing services. The federation recently succeeded in linking vegetable growers directly with vendors by opening a vegetable shop, thereby reducing the share to exploitative middlemen. It also is working to improve transportation between rural producers and retail vendors.

Responding to Globalization

Recognizing that organizing at the grassroots level is a necessary but insufficient strategy for achieving long-term, sustainable change, SEWA promotes the development of: 1) larger-scale federations and associations; and 2) partnerships and coalitions among its federations/cooperatives and groups such as universities and export organizations. Regarding its strategy of developing federations, SEWA writes:

Access to markets, to training, to technical inputs and to policy making requires organizations which can deal at state, national and international levels. The primary purpose of these organizations is to link the self-employed women, through their primary organizations, to the larger economic structure; and in doing so, to mainstream them into the economy (SEWA website).

SEWA supports approximately sixteen federations serving a wide variety of needs, such as for savings and credit, housing, child care and marketing. The largest such group is the Co-operative Federation (described above). Another major apex organization is SEWA Gram Mahila Haat, composed of village-based producers’ groups from nine districts, as well as cooperatives and district-level associations. Designed to improve the competitive position of rural agriculture, livestock and handicraft producers
by boosting the quality of their production and minimizing the share of profits accruing to
middlemen, the organization provides training, helps producers establish direct linkages
with the market at the district level, and assists them in marketing their goods in national
and international markets.

Finally, SEWA engages in numerous alliances with regional and international
NGOs. For instance, it established a SEWA Trade Facilitation Centre (STFC) (described
above) for southern Asia through an alliance with the South Asian Association for
Regional Co-operation. In 2003, the STFC chair founded a multinational trade
association based in London, the Global Trade Facilitation Centre, which is designed to
strengthen and expand market opportunities for informal sector, grassroots producer
groups, particularly those involving women.

9. **Grameen Bank**

Convinced that poor borrowers were good credit risks, economics professor
Muhammad Yunus and several colleagues founded the Grameen Bank Project in Jobra,
Bangladesh in 1976, to offer small amounts of credit to landless women. The project’s
initial loan to 42 villagers amounted to US$27. By 2004, the Grameen Bank (GB) had
disbursed a total of US$4.27 billion to 3.36 million clients at a loan recovery rate of 99
percent (GB website).

According to Yunus (1997), four key features distinguish the Grameen Bank from
commercial banks and contribute to GB’s success: group lending, outreach, a focus on
women, and weekly repayment. Each is discussed in turn.

1. **Group-based Lending.** In contrast to conventional banks, which require
borrowers to have collateral, a guarantor, and a good credit history, GB’s loan
disbursement program operates around village-based groups comprising five individuals,
who mutually guarantee one another’s loans. After a mandatory two-week training
session, the group qualifies for loans, which GB makes to two of its members. Only
when these members repay their loans may another member receive her loan. As such,
GB’s group-lending practice creates horizontal, rather than top-down, pressure to repay.51

Groups elect a leader to serve for a year as the primary contact between the group
and the bank. Borrowers also join centers, larger units comprising six to eight village
groups. All group members must attend the weekly center meetings, during which
payments are collected and other bank business conducted. Elected representatives lead
groups and centers, a factor encouraging member participation, self-help, and democracy.
Members may not hold second terms until everyone has had the opportunity to serve
once.

GB also requires borrowers to save, depositing the requisite amount at weekly
group meetings. A small percentage of each loan is levied for the “group fund,” which is
managed by the group and from which members may borrow in times of great need. In
addition, a percentage of larger loans are levied for an emergency fund, which is
managed by GB and used as a life insurance program.

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51 As GB does not impose group liability, group members are not responsible for paying on behalf of a
defaulting member.
2. Outreach. Rather than asking people with few resources to travel to a bank, the GB sends its staff, on designated days of the week, to each of the centers in all 44,000 villages—an activity that facilitates the process of establishing mutual trust. The staff conduct all bank business openly, recording transaction in front of members. In addition to meeting borrowers when they first take out loans, staff meet weekly with borrowers at center meetings.

3. Focus on Women. Noting that loans to women, as opposed to men, brought more benefits to households, GB aimed at the outset to ensure that at least fifty percent of its borrowers were women, despite intense opposition from husbands, religious leaders, and even the state regulatory agency. Today, 96 percent of GB borrowers are women.

4. Weekly repayments Finally, while most commercial banks make large loans that are not due for a relatively long period of time, and require large payment amounts, the GB asks borrowers to repay loans in small amounts beginning immediately. Initially, the GB collected on loans daily, but today it collects payments weekly. To help offset the administrative costs involved in processing a large number of tiny loans, GB charges interest on loans at a rate five percent higher than the official interest rate. As the GB does not take legal action against defaulting borrowers, no legal instruments are involved.

Governance and Participation

GB borrowers own 93 percent of the bank’s total equity, with the government owning the remainder. Borrowers become shareholders by buying one share in GB for a small amount. Every three years, borrowers elect nine borrower-shareholders to serve on GB’s thirteen-member board. The government appoints three members and the board appoints the final member (Yunus 1997). In addition, GB members annually elect group chairs, secretaries, center chiefs, and deputy center chiefs. This experience has prompted many members to run for public office. In 2003, 7,442 GB members ran for the seats reserved for women in the Union Porishad local government elections; 3,059 members were elected, representing 24 percent of such seats.

GB’s services are administered through a decentralized, multi-tiered structure. The lowest administrative unit is the branch office, which serves fifty to sixty centers, representing twelve to twenty-four villages. Each branch office staff member is responsible for five to ten centers. Ninety percent of GB staff work at the branch level, thus making the organization “bottom heavy” (Yunus: 1997: 18). At the next level, area offices, located in small towns, supervise ten to fifteen branch offices. Zonal offices, located in district capitals, serve ten area offices and act autonomously. Finally, the head office in Dhaka coordinates overall operations and works with government, the Bangladeshi Bank and international donors.

In addition to emphasizing borrower involvement, GB encourages the active participation of staff in its operations. Most significant matters are debated and decided by zonal and area managers, rather than by the head office. Moreover, both zones and areas hold conferences throughout the year to share ideas and set policy.
Social Development and Enterprise Creation

The Grameen Bank’s success over the years has enabled it to become much more than a lending institution, and it now operates over a dozen large development programs and socially consciousness-driven companies charged with improving the lives of poor people. It offers its borrowers affordable health care, access to day care and nursery schools, scholarships, life insurance and low-income housing loans.

Several GB subsidiary businesses endeavor not only to make money, but also to assist in the development of Bangladesh as a whole. For example, in 1993 Grameen established Grameen Uddog, a company that helps the country’s weavers acquire capital, develop new designs, develop uniform product quality, and market their products locally and overseas. GB also introduced its own lines of materials—Grameen Check and Grameen Flannel—for the weavers to produce. Other GB-sponsored businesses include Grameen (Motsho) Fisheries Foundation, Grameen Agriculture and Grameen Shakti, a renewable energy company. Grameen Telecom, a for-profit company, has provided loans to over 53,000 GB borrowers to buy mobile phones and offer telecommunications services in almost half of Bangladeshi villages, where such services had not existed before. The average annual income of “phone ladies” is estimated at US$700, more than double the country’s per capita income (Binswanger and Aiyar 2003). The company plans over the next several years to provide cellular mobile phone service to 100 million rural inhabitants in 68,000 villages, by financing GB members to provide such services. Finally, Grameen CyberNet Ltd., in operation since July 1996, was one of the first Internet service providers in Bangladesh.

10. Bangladesh Rural Advancement Committee (BRAC)

In the aftermath of the Independence War, Fazle Abed, a Bangladeshi corporate executive, founded BRAC (originally the Bangladesh Rehabilitation Assistance Committee) in 1972 to provide emergency relief and resettlement assistance to the thousands of refugees returning from India. When that effort ended, BRAC shifted its focus to poverty alleviation and rural development. Today, BRAC is one of the world’s largest NGOs, reaching over four million low-income people, mostly women, across the country through its micro-credit, health, education, training, and rural capacity-building programs. More than 28,000 regular staff and 33,000 part-time teachers work in 65,000 villages in all 64 districts of Bangladesh to promote the economic and social empowerment of women, children, the landless poor, and other marginalized groups.

Governance and Organizational Structure

BRAC is noted for its emphasis on continuous learning, i.e., for investing in systems of learning for individuals, programs and the organization as a whole (Alvord et al. 2002). For instance, BRAC promotes flexibility and innovation by keeping its headquarters staff very small in relation to its voluminous field staff, and by focusing on the field as the primary unit of operations (Abed and Chowdhury 1997). In addition to promoting from within, BRAC invests heavily in staff and program participant training: BRAC’s Training Division has created 16 residential Training and Resource Centers and
two Centers for Development Management that offer courses in such areas a social awareness education, leadership, and organization and management. BRAC also operates a Research and Evaluation Division that provides impact information for all programs and monitors program activity.

BRAC’s organizational structure is composed of four levels. The governing body consists of nine members, all non-executive except for the chairperson (founder Fazle Abed), as well as headquarters staff. At the regional level, managers oversee the work of the area office, BRAC’s core administrative unit. Responsible for formulating operational policy and engaging in implementation, the area office is headed by an area manager and staffed by program officers, who are assigned to different regions or territories. At the village (program) level, program officers receive assistance from locally-recruited workers trained as specialist paraprofessionals or general purpose village workers (gram sheboks).

Each PO and area office staff member, regardless of seniority, participates in unit decision-making. Specialist trainers and a small group of headquarters staff facilitate the decision-making process. The latter also offer guidance to area offices upon request and assist with monitoring and evaluation.

BRAC’s link to its target population and its main service delivery mechanism is the village organization (VO), a key organizational arrangement which aims to develop low-income people’s social capital and capacity for sustainable development. Program officers and village workers help organize groups of 30 to 40 landless people, mostly women, into VOs, which serve as forums in which members address structural problems confronting them, open savings accounts, and receive the array of credit, health, micro-enterprise and education services from the organization. BRAC organizes separate VOs for women and men, with the latter forming only after a women’s VO has formed. By year-end 2003, BRAC had organized its 4.07 million members into 119,836 VOs, each having 30 to 40 members.

VO members undergo several months of education and training before becoming eligible to receive the organization’s benefits and services. BRAC’s micro-credit staff meet weekly with VOs to facilitate credit operations, and its social development and health staff meet bimonthly and monthly, respectively, to discuss issues related to health, law, income, employment, discrimination, social injustice and violence against women (BRAC’s 2003 Annual Report).

Programs

BRAC’s three core programs are designed to alleviate poverty and empower low-income people by providing VO members with credit, micro-enterprise development, education and training, and health care.

Economic Development Program (EDP). Begun in 1986, the EDP supports VOs by providing members with access to credit, employment opportunities and technical training. The credit component operates through self-governing groups of five to seven VO members (similar to the Grameen Bank’s borrowing groups), who are in charge of loan approval, repayment and use. Before receiving a loan, a member must save at least five percent of the loan amount to demonstrate repayment ability. Loans are available to
members on a rotating basis; all members of a group must receive their first loan before anyone can receive a second loan. Since each group is eligible for no more than three outstanding loans at one time, peer pressure is an effective means of ensuring that weekly payments are made in a timely manner. In addition, each group member is also responsible for saving a small amount of money each week. By year-end 2003, BRAC had distributed loans of more than US$2.15 billion dollars to 3.04 million borrowers, with a recovery rate of 98 percent.

Interest from VO loans is used to cover the operating costs of villages’ respective area offices. To facilitate this self-financing function, BRAC created the Rural Credit Program (RCP), which manages the loan portfolios of area offices. RCP branches, which function as banks, are expected to be self-sustaining.

Another major component of the EDP is the Employment and Income Generation program, which promotes micro-enterprise development, a service that BRAC considers to be as important as microfinance. Reflecting cutting-edge design, BRAC’s approach to enterprise development is sector-specific. That is, BRAC first identified six sectors in which low-income women could be productively employed—sericulture, fishery, poultry, livestock, agriculture and agroforestry. It then “developed an integrated set of services, including training in improved techniques, provision of improved breeds and technologies, on-going supply of technical assistance and inputs, monitoring and problem-solving as needed, and marketing of finished goods” (2003 Annual Report: 15). Thus, in addition to providing training, BRAC also works with members to create domestic and international markets for products (such as silk) that they create through sector programs. These activities create jobs not only in production, but also in retail shops and other commercial activities in major cities where BRAC products are sold.

BRAC also supports a range of successful commercial ventures. These include Aarong (retail handicraft chain stores), a cold storage facility, a printing press, a hospitality company, a dairy plant, an internet service provider, and a housing finance company. A 1996 World Bank article projected that, with help from these projects, the EDP would be entirely self-sustaining by 2010 (Khandker and Khalily 1996).

Education Program. Founded in 1985, BRAC’s Non-Formal Primary Education Program (NFPE) provides three years of basic education to children of low-income, landless families. Serving mostly girls and taught by women recruited from local villages, NFPE’s one-room schools meet 6 days a week for 3 hours per day, without an extended vacation period, over the three-year period. Nine out of ten students in the program continue their education in the formal system’s higher classes (Abed and Chowdhury 1997: 53). The Bangladeshi government now works with BRAC to improve the performance of its formal school system, based on the program’s innovative design.

In addition to thousands of schools, NFPE also has set up 916 community libraries and over 8,000 School Reading Centers to encourage village literacy.

Health, Nutrition, and Population Program. BRAC provides basic curative and preventive services to more than 31 million people, including services to pregnant women to improve their health and nutrition status, and services to control infectious diseases. To ensure that all of its target villages offer primary care services, BRAC asks every new VO to choose one member to receive training as a village health worker, who
is authorized to dispense certain basic drugs and provide other services for a fee (Abed and Chowdhury 1997). BRAC also works closely with public-sector child immunization and family planning programs, and operates 55 health centers and 58 diagnostic laboratories across the country (BRAC website).

11. **Township and Village Enterprises**

   It is widely agreed that the non-state sector of China’s economy—composed of township and village enterprises (TVEs), urban collectives, private and individual businesses, and foreign joint ventures—has fueled the remarkable growth of China’s economy since the country initiated economic reform in 1978 (Perotti et al. 1999). Among non-state sector entities, TVEs have achieved the most spectacular growth, becoming the second largest sector in China’s economy and producing about one-third of China’s GDP since 1996 (Cao 2000; Sun 2000).

   TVEs are rural industrial enterprises owned by local communities and managed by local governments. They are primarily labor-intensive enterprises that manufacture a variety of goods, such as coal, canned goods, radios, phones, electric fans, and especially clothes. They also produce construction materials, such as gravel, wood and polished granite, and services such as transport construction (Piazza and Lang 1998; Cao 2000; Gabriel 1999). TVEs tend to be small in size: in 1996, the average size of township enterprises was 73 workers per firm, and that of village enterprises was 26 workers per firm (Perotti et al. 1999). In addition, despite their designation as rural industrial enterprises, TVEs frequently are located in communities that could be considered urban (Putterman 1997).

**Origins**

   TVEs trace their roots to the establishment of agricultural collectives during China’s Great Leap Forward in 1958, which led to the creation of commune-and brigade-run enterprises (CBEs), entities responsible for promoting rural industry (Harvie 2000). CBEs grew steadily throughout the 1960s and 1970s, producing about 15 percent of national industrial output and employing over 29 million workers by 1979 (Putterman 1997). By the late 1970s, the state replaced the agricultural commune system with a household contract responsibility system, in which it dissolved communal land and allowed farmers to buy the newly available assets at reduced prices, contract with the state to sell a set quantity of produce, and keep any surplus. This reform enabled farmers to increase their cash reserves and finance new enterprises. The state also expanded CBE autonomy to increase production and create new businesses, which, combined with the newly generated capital surplus, laid the foundation for later TVE growth. In 1984, the state officially renamed CBEs as TVEs.

**TVE Performance**

   By all accounts, TVEs have made stunning achievements in the areas of output, employment, export growth, productivity, technology upgrading, and sustained profitability (Harvie 2000). For instance, from 1980 to 1996, TVEs expanded in number
from 1.4 million to 23.4 million, and their output grew at an average rate of 21 percent per year between 1978 and 1995. By 1997, TVEs’ share in national total export reached 46.2 percent.

Perhaps most remarkable has been TVEs' growth in employment. Over the post-1978 reform period, TVE employment more than quadrupled, growing from 30 million workers in 1980 to 135 million in 1996 (Perotti et al. 1996), and providing an additional 100 million new jobs in the rural sector (Harvie 2000). In addition, TVEs’ share in total employment rose from seven percent in 1978 to 21 percent in 1995 (Sachs and Woo 1997). In recent years, however, the rate of employment growth has slowed, although output growth has remained at high levels (see below).

As scholars have argued, both the rate and scale of growth of China’s rural industry are unique in the world, leading many to speak of a “TVE miracle” (Perotti et al. 1999). Also unique is the institutional structure of the TVE, which operates outside of the state, yet lacks clear private owners (Sachs and Woo 1997). Because they combine private entrepreneurship and public ownership, TVEs may be considered a hybrid institution, (Gabriel 1999). Their extraordinary growth, which reflects an ability to turn ambiguity into competitive advantage, thus poses a paradox for conventional theory, which asserts that legally-defined private property rights are the precondition for eliminating free rider and other opportunistic behavior, and for creating the incentives necessary for market success (Harvie 2000).

The TVE phenomenon has sparked an intense debate between an “experimentalist” and a “convergence” camp. The former views TVEs as an institutional innovation that reflects a “third way” in development and proves that marketization (i.e., competition in product and factor markets), not privatization, is key. The latter camp views TVEs as private enterprises in disguise, or at the least as stepping stones to real private ownership (Sachs and Woo 1997). This debate is complicated by the fact that China has begun a process of mass privatization of rural industrial enterprises, which has led many scholars across the spectrum to predict that TVEs as currently organized will play a diminished role in future development (ibid.) (see below).

**Ownership Structure**

The ownership structure of the TVE reflects the institution’s unique nature. Legal ownership of the TVE is vested in the local citizens in which the firm is located. By contrast, ownership of producer cooperatives, state-owned enterprises (SOEs) and private corporations reside, respectively, in the firm’s workers, the citizens at large, and the firm’s shareholders. Control or management of the TVE does not rest with the owners, however; such a separation between ownership and control characterizes both the SOE and private firm, but not the cooperative. Instead, control of the TVE is vested in the township-village government (TVG), which either exercises direct managerial authority over daily operations or delegates this responsibility to professional managers.\(^{52}\)

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\(^{52}\) Workers in TVEs sometimes are allowed to vote over the selection of management, but this right is largely superficial, given that only the TVG is authorized to initiate a vote. Moreover, TVGs control so many aspects of the local citizen’s life (including who can work in the TVE) that workers risk a great deal by confronting management (Chang and Wang 1994).
The TVE is also unique regarding the issue of which party may claim the firm’s residual benefits. Similar to the SOE, in which the national government and citizens at large share the benefits—but in contrast to cooperatives and private firms, in which the owners are the main beneficiaries of firm profits—the TVE is structured so that both the local citizens and the TVG receive the retained profits. As Chang and Wang (1994) explain, the state has mandated that post-tax profits be assigned according to the following sharing rule: roughly 60 percent of profits must be retained by the firm for production expansion; of the remaining 40 percent, a relatively small portion may be used as bonuses for workers, while the bulk must be paid as fees to the TVG. These fees can be used for two purposes: operation of the TVE (which may include benefits paid to TVG officials, such as travel expenses and use of government vehicles); and financing of various social programs and infrastructure projects, such as education and road construction.

As Chang and Wang (1994) note, local citizens may benefit not only from the TVGs’ support of communal programs, but also from the profits retained for further development of the firm. That is, TVE development may enhance workers job security, provide new job opportunities for other local citizens, and increase net profit, which in turn can increase support to communal social programs. Hence, TVEs arguably are vehicles not only for community profits, but also for community employment (Bowles and Dong 1999: 3). Indeed, a number of scholars have noted the institution’s multiple objectives: in addition to pursuing narrow economic interests, such as profit maximization, TVEs also pursue social objectives, such as employment maximization (Bowles and Dong 1999; Oi 1992).

Several mechanisms aim to ensure that TVGs actually share profits with local citizens, as prescribed. First, the sharing rule (described above) appears to have been institutionalized. Second, community members’ right of ownership gives them an incentive to monitor TVG officials and TVE management, although their powers to do so vary across communities (Perotti et al. 1999). Third, TVGs are responsible for many social programs, which they may fund either through TVE profits or by charging citizens fees. Many TVGs choosing the latter option have experienced major social unrest (Chang and Wang 1994).

Strengths and Limitations of TVEs

Scholars agree on several key reasons for TVEs’ remarkable record on growth and efficiency, including the following. First, unlike SOEs, TVEs face hard budget constraints. From their inception, TVEs were forced to rely on markets for sourcing their supplies and selling their products (Harvie 2000). This is because TVGs (unlike higher levels of government) have no authority to shelter TVE from outside competition or to forgive the debts of failing TVEs, and have no access to state banks (Perotti et al. 1999). Moreover, while subsidizing across TVEs is possible, the extent of such subsidization has been minimal (ibid.). Second, TVE success stems from their relatively small size, which renders them flexible and able to respond quickly to market changes (Harvie 2000). Third, the Chinese government has kept taxation rates on TVEs low to encourage rural industrialization. Fourth, TVEs have garnered support by cooperating with the state
sector, as well as research and educational institutions. For instance, SOEs often subcontract production to TVEs and provide material, equipment and technical assistance. Finally, many TVEs have entered into fruitful alliances with private corporations, as discussed in the section below.

The limitations of the TVE model include the following. First, because TVEs have had to rely primarily on reinvestment of surplus to increase production, as opposed to direct investment by the state, they have tended to suffer from limited funds and supplies, which further limits their scale. Moreover, outside (foreign) investment has been low due to lack of clarity surrounding property rights (Sachs and Woo 1997). The Food and Agriculture Organization of the United Nations speculated in 1997 that, even if TVE growth were to continue, the sector would be unable to absorb the growing labor surplus: “Without more infrastructure investment and policies that facilitate the growth of TVEs, they can only absorb another 50 m. of the nearly 300 m. rural people expected to become unemployed over the next ten years” (Xiaoyun et al. 1997). Indeed, some commentators suggest that employment in the TVE sector reached a peak of 135 million workers in 1996 (Brooks and Ran 2004). Second, TVE workers have a very low level of education; in the early 1990s, for instance, less than one percent of workers had a degree or medium level technical qualifications (Harvie 2000). Third, corruption among TVG officials and bureaucratization are growing, especially in those areas that are unable to effectively “monitor the monitors,” due to insufficient democratization at the grassroots level (Perotti at al. 1999: 167). Finally, while TVEs have raised rural incomes substantially, their uneven development across the country has contributed to growing inter-regional income inequality among rural populations (Yao 1999). Eastern and coastal regions are much more developed than the central and western provinces, and TVE development has migrated to the former. For instance, TVEs employed 30 percent of the rural labor force in eastern provinces, but only 24 percent in the central and 15 percent in the western provinces. Moreover, TVE income is much more unequally distributed than agricultural income (ibid.).

Degeneration?

Since 1992, Deng Xiaoping’s “southern tour” of 1992 led to the introduction of measures to spur reform in the state banking and SOE sectors in order to promote the private sector economy, which eliminated many of the organizational advantages that TVEs enjoyed relative to the state sector (Ho et al. 2003).
While those in the “convergence” camp view this development as evidence that TVEs are merely a mid-way point on the inexorable path to private ownership, others interpret the evidence more cautiously. Harvie (2000: 71), for instance, argues that TVEs are “likely to remain a significant feature of the Chinese economy, albeit in new organizational and ownership forms, for some time.” He finds evidence of this possibility in the transformation of many TVEs “into complex interconnected networks involving science, industry and local government” (98). These networks enhance TVE’s competitive position vis-à-vis larger and more powerful SOEs by enabling TVE’s to gain access to technology and investment capital. Moreover, as Harvey posits, there are numerous reasons that foreign companies might find TVEs “ideal partners” (92-94). Thus, it is possible that the evolving, organizational capacity of TVEs to develop business and R&D partnerships, as well as to cultivate their international orientation, will enable TVEs to compete successfully against private sector firms.

12. **Fundación para la Educación Superior**

Prior to 1964, the Universidad del Valle in Cali, Colombia, a public institution, frequently had to borrow from local banks at high interest rates in order to cover program expenses, because government funding often arrived late. Upon the advice of MIT President Julius Stratton, the University established the Fundación para la Educación Superior (FES) in 1964 to address its cash flow problem and provide a mechanism for receiving interest on large sums of money sent by US foundations for pilot social programs.

The University selected a group of 12 prominent civic and business leaders in Cali to become FES’s founding members, each of whom contributed 2,000 pesos to create an initial endowment of US$2,666. The Ford Foundation provided a US$20,000 seed grant to cover administrative expenses, and the Rockefeller and Kellogg Foundations agreed to direct their grants to FES so that it could use the interest earned on the grants to fund its operation. Initially, FES functioned as a typical university foundation, managing grant money from foreign foundations, while investing the unused funds in secure loans at prevailing interest rates. In 1975, the Colombian Banking Regulatory Agency recognized FES as a “commercial financing company,” prompting FES to operate on two levels: as a financial organization providing resources to meet the university’s administrative expenses, and as an agency promoting social development programs. By 1980, FES’ total endowment had grown to well over US$5.5 million.

From 1982 to 1987, corporate scandal in the commercial banking sector led Colombia’s government to assume control of several banks. The crisis reinforced public trust in institutions, like FES, that had remained untouched by corrupt financial schemes. Moreover, FES matured during this period into an entrepreneurial philanthropic organization by focusing on four tasks: building national recognition for its programs, developing and prioritizing a social plan of action, creating an endowment, and developing a concept of social enterprise. By 1990, FES’ endowment had grown to over

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54 The following profile draws largely on case studies by the Synergos Institute (Zamorano 1997) and NESsT (2000).
US$11 million. By the late 1990s, with assets close to US$300 million, FES had developed into an “entrepreneurial conglomerate offering financial services” and a center of leadership for a network of Colombian NGOs (Zamorano 1997: 36). With a staff of 636 employees and an endowment of over US$42 million in 2000, FES has become one of Colombia’s most important private community foundations and its largest commercial financial company (NESsT 2000).

Social Enterprise and Permanent Funds

Since FES reorganized in 1975 as a commercial financing company (CFC), its corporate structure has evolved to promote the foundation’s orientation as an “entrepreneurial and creative social enterprise” (Zamorano 1997: 12). By 1998, FES was composed of seven financial companies that it owned and controlled, a structure that provided “specialized financial services to medium and small-scale enterprises, private banking services, specialized consumer credit, corporate financial services, and fiduciary management and brokerage services” (Civicus World 1998: 8).

FES derives its income from these commercial activities, as well as from the administration of Permanent Funds (PFs) and Permanent Matching Funds (PMFs), which FES established in the late 1970s to build its endowment. PFs are donations made to FES by individuals and CSOs, which are deposited into FES’ endowment with no match from FES. PMFs are donations which FES matches on a 50 percent basis. FES invests these endowment funds in its commercial financing company (CFC). Typically, PFs and PMFs take one of two forms: 1) donations made for FES-administered projects; and 2) donations made by an organization for its own work. In the former case, FES uses 70 percent of the investment dividends to fund its administrative expenses, reinvesting the remainder into its endowment. In the latter case, FES returns 70 percent of the investment dividends to the donating organization to fund its administrative costs; FES reinvests the remainder in its endowment.

By the late 1990s, FES had created nearly 500 such funds, which helped its endowment to reach approximately US$42 million (NESsT 2000). The funding stream from its commercial operations and permanent funds enabled FES to distribute over US$100 million in grants between 1975 and 1999 (fifty percent of this grant money derived from resources generated through FES’ commercial operations, and the other fifty percent from donations to FES programs). The funding stream also enables FES to operate its own social projects.

One such project (now an independent NGO) is the FES Leadership Institute. Created by FES in 1990 to promote creative leadership based on strong ethical and democratic principles at all levels of society, the Institute conducts training programs for NGOs, youth, the educational sector, private businesses, and local governments. FES also co-owns, with several other foundations, a television company, PROCIVICA. The company produces several programs that aim to present objective news and information with a commitment to democracy and regional well-being.

FES has developed relationships and joint ventures with institutions such as the World Bank, the Inter-American Development Bank, and members of the international
academic community, including Tulane, Harvard, and MIT. FES has drawn on this experience to help create similar foundations in the Americas, Europe, and Africa.

Social Programs

FES’ social sector runs six major programs/divisions. The Education Division supports research on the quality and outreach of educational institutions at all academic levels in Colombia. To provide educators with specialized materials on education and schools, it established a publishing program, which publishes a magazine reaching 95 percent of its target audience, with 80,000 issues circulating bimonthly. The division also manages a scholarship program to send students overseas. The Health Division aims to increase the quality and coverage of health services, especially among low-income people, by operating primary health care programs, promoting hospital management projects, and sponsoring joint research with several universities. The Economic and Social Development program promotes community development corporations and other grassroots organizations; fosters the development of small businesses through technical and managerial training; and assists low-income single mothers with job and educational opportunities. The Children and Youth Division operates youth education and recreation projects, and has joined UNICEF and other NGOs in protecting children’s rights. Through its Funds and Evaluation Division, FES has provided community service organizations (CSOs) with financial support and training courses on strategic planning, fundraising, management, and project analysis. Finally, FES’ Environment Division works to preserve Colombia’s biological diversity. Its experience developing Colombia’s first nature reserve led to the creation of a network of 61 such reserves around the country. The Division also promotes research, training, and educational activities regarding environmental protection.

13. Kagiso Trust

In 1986, members of the European Union joined South African church and political leaders to establish a Special Programme to Assist the Victims of Apartheid. The Kagiso Trust (KT) was founded to administer the program’s funds to aid disadvantaged Black South Africans. Many leaders of the anti-apartheid movement, such as Reverend Desmond Tutu, became directors of KT and continue to lead the organization today. At its founding, some viewed KT as a donor tool whose purpose would perish upon apartheid’s demise. However, KT provided a sustainable administrative mechanism to build development projects, disburse funds, and continue reinforcing the values of equality and community in South Africa (Schute 1997). Today, KT is attempting to create economic equality for Black South Africans still marginalized in the post-apartheid era by pioneering ways of using capital and business enterprises to effect political and social change. Through ownership in shares of certain companies, particularly in the finance and media industries, KT strives to alter traditional business practices and increase access by Black South Africans to the economic establishment.
Social Enterprise Financing Strategy

The fall of apartheid occasioned the loss of KT’s largest donor, the EC, which began working directly with the new, democratically-elected South African government. Thus, to continue its mission of creating economic opportunities for Black South Africans, KT had to develop a new financing strategy. Recognizing that its strong ties to the Black South African community were a critical asset—business people in the post-apartheid era were turning continually to KT for help in bringing marginalized people into business management—KT chose to develop a strategy based on promoting sustainable development through its participation in joint ventures and the creation of an investment business.

With a US$15 million loan from J.P. Morgan, KT established a for-profit business consultancy, *Kagiso Trust Investments (KTI)* in 1993, a wholly-owned for-profit affiliate that invests in new or existing businesses to generate income for its shareholders, especially KT. Thus, while KT primarily disperses grants,\(^{55}\) KTI formulates corporate and management policies for the businesses that it has created, in which it maintains significant holdings. These businesses include Kagiso Media Ltd., a collection of broadcasting and media-related companies, which is listed on the Johannesburg Stock Exchange; Kagiso Khulani Supervision, South Africa’s largest industrial catering company, which provides food services to more than 650 kitchens in hospitals, schools and businesses, and employs more than 6,000 people; and Kagiso Financial Services, a joint venture with the international Rothschild Group, which consults on mergers and acquisitions, strategic equity partners, infrastructure projects, natural resource, and other corporate and project finance issues.

The rapid success of KTI led KT to start up several other affiliates, which together have become the KT-Group. These include *Kagiso Trust Enterprises (KTE)*, a separate, wholly-owned affiliate that promotes small business development by offering technical assistance, training and loan financing to small and medium-sized, Black-owned enterprises. KTE directs investment capital to sectors that promote sustainable development, such as education, telecommunications and tourism. For instance, it created an educational television production company that explores the conditions of post-apartheid South Africa (Kalegaonkar and Brown 2000). Moreover, both KTI and KTE avoid investing in areas that they deem harmful to the goals of Black empowerment, such as mining, tobacco, alcohol, gambling, and environmentally unfriendly products. Among KTE’s initiatives is the Kagiso Leadership School, a Black-owned business school that provides staff training for KT employees.

In addition to KTI and KTE, Kagiso Trust established the *Kagiso Trust Consultancy (KTC)*, which provides a range of services in support of development planning, facilitation, and management. KTC also is involved with building housing and asset management. *Kagiso Development Trust* is a grant-making institution that seeks to support “flagship, precedent-setting and replicable development projects” (KT website). Finally, *Kagiso-Cowi* is a partnership with a Danish company which provides public and

\(^{55}\)Kagiso Trust runs a grantmaking program, fully funded by foreign donors, which has allocated more than R750 million to applicants from community-based institutions and development projects working on primary health care, AIDS awareness and prevention, micro-enterprise mechanisms, and training centers.
private clients with consultancy services in the areas of the environment and development planning.

KT, still the “parent organization” to this network of businesses, states that its long-term financing goal is to derive its funding solely from its commercial activities, as well as its “intellectual capital, its expertise in grassroots development, and its consulting work for government, state-owned enterprises, aid agencies, and international organizations” (KT website). Thus far, the revenues generated by these commercial enterprises have enabled the KT-Group to become the largest Black-owned NGO in South Africa and to advance its mission to promote sustainable development and Black economic empowerment.

Promoting Democracy

In addition to providing an independent income stream for KT’s social projects, the NGO-business hybrid brings resources into the control of the Black community and aims to change the management practices of its companies to become increasingly democratic. Through its ownership in various companies, KT places Blacks on governing boards, educates young Black entrepreneurs, increase Black employment opportunities, and provides services such as health care to disadvantaged South Africans. The KT-Group also attempts to infuse its for-profit businesses with its nonprofit values. For instance, it avoids investments in corporations that pollute the environment or negatively impact the health of society as a whole.

Challenges Ahead

By reinventing itself as an organizational hybrid, KT has demonstrated admirable organizational resilience in the face of severe funding difficulties. Because its survival depends on succeeding in the marketplace, its primary challenge lies in maintaining its social vision and balancing its civil society ventures with its for-profit businesses. Maintaining this balance has not been easy. For instance, the Group recently was criticized for selling a publishing company that replaced apartheid textbooks with non-racist versions because the company failed to turn sufficient profit. While some members of KT still maintain their activist roots, many of its newer employees have no political backgrounds, bringing business and management expertise to the table instead. Hence, whether the KT-Group is able to balance its dual missions remains a critical internal debate within the NGO.

14. The Dutch Science Workshops

In an effort to democratize access to science, left-leaning students and grassroots groups in the Netherlands came together in the early 1970s to establish the first science shops at several Dutch universities. Emerging out of the student protest movement, the original model aimed to provide community groups and NGOs, such as unions and environmental activists, with free or low-cost access to scientific and technological knowledge; redirect university research priorities; and ultimately transform society by reorienting science toward the needs of workers and socially marginalized groups.
(Wachelder 2003). By 1985, all thirteen universities in the country operated a science shop, and by 2001, the idea had spread throughout Europe and to such countries as South Africa, Israel, South Korea, the United States and Canada. While the exact number of science shops remains unclear (due largely to the lack of uniformity in applying the term), the European Commission estimated in 2001 that more than 60 science shops existed in Europe, mostly in the Netherlands, Germany, Austria, France and the United Kingdom (Fischer et al. 2003).

The European Union’s SCIPAS Project (Study and Conference on Improving Public Access to Science through science shops) defines such shops as “provid[ing] independent, participatory research support in response to concerns experienced by civil society” (Gnaiger and Martin 2001: 6). Dutch science shops conduct research in the natural, physical, engineering and technological sciences, as well as in the social and human sciences and the arts. Typically, they address questions related to the environment, health, labor, housing, education, social welfare, and law. For example, one chemistry shop frequently conducts ecological studies on products and production processes, such as the feasibility of producing plastic polycarbonate without chlorine, or of switching from a high-energy to a low-energy form of aluminum production (Ree 1996). A physics shop developed a computer program to calculate road traffic noise, which program a lay person could use; the shop has sold several hundred copies to neighborhood groups. At the request of a bird protection association, another physics shop devised a means to pump warmer water from the bottom of a lake to the surface to create holes through the ice, which allowed a rare, protected bird to feed throughout the bitter winters, reduced its mortality rate. Social science shops have examined such issues as the status of ethnic minorities, the consequences of the aging of the Dutch population for public health and social welfare services, and the emancipation of women (Ree 1996).

The SCIPAS Project distinguishes between two types of science shop models: the Dutch, university-based model, and a non-university based model, which typically is housed in an NGO. Within the Dutch model, the shops’ organizational structure tends to be either centralized or decentralized. Centralized shops are intermediary organizations, located within the university administration, which serve as mediators between the clients requesting the information and the research groups. By contrast, decentralized shops are located within the various academic departments, thus bringing them closer to the researchers. They also are more specialized and have smaller staffs than centralized shops, and often are student-run. Centralized shops offer more opportunities for consultation, however, due to their larger size. Yet, their greater distance from the grassroots increases the possibility that they would stray from their mission. Consequently, most universities have instituted selection guidelines, recommending that clients demonstrate: a grassroots or civil society background; a research request that

56 Homepage of the Science Shop for Physics, University of Groningen: http://www.rug.nl/wewi/dewetenschapswinkels/natuurkunde/index?lang=en
57 In 1996, the total number of full-time staff in the Dutch shops was 85, with 48 consultant researchers. On average, the centralized shops had four to eight staff members each and the decentralized shops had one or two staff members each (Ree 1996).
reflects the interests of a larger public; the inability to pay for research; lack of commercial motivation; and the ability to implement the results (Wachelder 2003).

Upon accepting a request, science shop staff typically link the project to a student’s thesis work at the master’s or doctoral level, unless the question can be answered with relatively brief library research. Some shops receive as many as 300 requests for research or information annually; in 2001, the maximum number of requests that a shop had completed in one year was 112 (Gnaiger and Martin 2001). The shops rely on university funds, government funds and foundation grants for their research and operating expenses; sometimes, they receive client fees, donations and membership fees.

The Dutch science shops have faced a number of challenges and opportunities in recent years. On the one hand, political support for the shops has weakened in the face of a Dutch political climate that has grown more conservative, a waning leftist student movement, and a general trend toward business cooperation that undermines some of the model’s ideological underpinnings (Fischer et al. 2003). As a result, shops have experienced declining state and university funding, which has contributed to the closing of a number of shops (Wachelder 2003).

On the other hand, the science shop concept has entered the mainstream, particularly as distrust in conventional, business-dominated science and technology has increased (evident, for instance, in the growing movement against genetically-modified foods). Indeed, most Dutch universities continue to support their science shops, most of which have sought to adapt to changing circumstances. Wachelder (2003) describes several different approaches that such shops have taken in responding to change. While some of the smaller, student-run shops have sought to reinforce their independence from the university by securing outside funding, others have transformed themselves into market-oriented researcher centers and consultancies. These latter shops observed that, as social problems have become more complex and as civil society organizations have professionalized, a range of clients, such as environmental groups, now retain in-house researchers to solve more simple problems; these groups are willing to pay outside, professional researchers to solve more complicated questions. By charging such groups for larger projects, the shops are able to conduct smaller projects free of charge for less well-endowed organizations.

At the international level, the European Union has sought to support the creation and development of science shops through a networking approach. In February 2003, the EU established ISSNET, the International Science Shop Network, to link local and regional initiatives involving science shops and similar community research activities. The goals of the network include disseminating information and expertise among science shops, and promoting communication and collaboration among scientific organizations, such as universities and science shops, and other organizations, such as NGOs, citizen’s groups, and science museums (See http://www.scienceshops.org).

58 Similarly, around the world, many shops were closing, just as others were opening. For instance, none of the 25 German shops, and only three of 15 French shops, were still operating in 2003 (Fischer et al 2003).
V. REFERENCES


Marshall, Robert. 2004. “Why Has an Expanding Movement of Worker Co-operatives Emerged in Japan among Middle Aged, Middle Class Housewives over the Past 15 Years?” in Durrenberger, Paul and Judith Marti (eds.). Labor in Anthropology. Walnut Creek, CA: AltaMira Press (Ch. 7).


Web addresses of profiled cases:59

Bangladesh Rural Advancement Committee: http://www.brac.net/

Co-op Atlantic: http://www.co-opsonline.com/

Co-op Kobe: http://www.kobe.coop.or.jp/index2.html

Co-operative Group: http://www.co-op.co.uk/

Science Shops, including Dutch Science Shops: http://www.scienceshops.org

Fundacion para la Educacion Superior: http://www.fedesarrollo.org/

Grameen Bank: http://www.grameen-info.org/

Japanese Consumers’ Co-operative Union: http://www.co-op.or.jp/jccu/english_here/index.htm

Kagiso Trust: http://www.kagisotrust.com/

La Lega: http://www.legacoop.it/

Mondragon Cooperative Corporation: http://www.mondragon.mcc.es/

SANASA: http://www.sanasa.ik.htm

Seikatsu Club Consumers’ Co-operative Union: http://www.seikatsuclub.coop/index.html

SEWA: http://www.sewa.org

59 As of September 2004, it appeared that the following organizations did not maintain English language versions of their websites: Co-op Kobe, Fundacion para la Educacion Superior, and La Lega. Moreover, there does not appear to be a single website for the Chinese Township and Village Enterprises.