When and How Far is Group Formation a Route

out of Chronic Poverty?

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Abstract
The paper argues that groups are fundamental to economic, social and political outcomes, despite their relative neglect by economists, who continue to treat groups as quasi-individuals. Group formation has great potential for enabling the members to reach their goals. However, the hypothesis explored in the paper is that in a number of significant ways, the chronically poor are disadvantaged in group formation, and this may form a significant part of the vicious circle and dynamics of chronic poverty. The paper draws on a research project on the role of groups in economic development, and specifically in poverty reduction. The project is coordinated by Judith Heyer, Frances Stewart and Rosemary Thorp. In part 1 the paper distinguishes various types of groups and analyses their potential for improving the position of the poor. Case studies demonstrate that potential. Success and failure is defined in terms of two types of outcome: increased income, and empowerment. The paper then explore in part 2 how the poor, and especially the very poor, are or may be disadvantaged, both in forming groups and in making them work. Having shown that successful groups formed among the poor may be very likely to exclude the even poorer, part 3 explores instances of success of groups in including the poorest, and analyses what makes for success in inclusion –sometimes even in reaching the very poor.

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When and How Far is Group Formation a Route out of Chronic Poverty?

By Rosemary Thorp, Frances Stewart, and Amrik Heyer

In this paper we argue that groups are fundamental to economic, social and political outcomes, despite their relative neglect by economists, who continue to treat groups as quasi-individuals. Group formation has great potential for enabling the members to reach their goals. However, our hypothesis is that in a number of significant ways, the chronically poor are disadvantaged in group formation, and this may form a significant part of the vicious circle and dynamics of chronic poverty.

The paper draws on a research project on the role of groups in economic development, and specifically in poverty reduction. The project is coordinated by Judith Heyer, Frances Stewart and Rosemary Thorp. The initial analysis and findings have been published as “Group Behaviour and Economic Development: is the market destroying cooperation?” (OUP 2002). This paper is based partly on the findings of that work and partly on ongoing work which seeks to extend those findings. The published volume contains analyses of 10 in-depth case studies; the present research has developed a data base of approximately eighty case studies from the literature, dealing with different kinds of groups (producer associations, credit groups, natural resource management groups, women’s groups and scavenger groups).

The focus of the conference is the Politics of Chronic Poverty. We take as our reference point the definition of chronic poverty developed by Hulme and Shepherd in the introductory material circulated: the chronically poor will have been poor for at least five years, and their poverty is primarily grounded in a paucity of assets, broadly defined. When we use the word ‘poor’ in what follows, this is the concept to which we refer.

In part 1 the paper distinguishes various types of groups and analyses their potential for improving the position of the poor. Case studies demonstrate that potential. Success and failure is defined in terms of two types of outcome: increased income, and empowerment. We then explore in part 2 how the poor, and especially the very poor, are or may be disadvantaged, both in forming groups and in making them work. Having shown that successful groups formed among the poor may be very likely to exclude the even poorer, in part 3 we explore instances of success of groups in including the poorest, and we analyse what makes for success in inclusion – sometimes even in reaching the very poor. In part 4 we develop conclusions and in part 5 some policy implications.

1. How groups can contribute

i. What groups are.

Most economic decisions are taken by people acting within, and very often on behalf of, groups. As consumers, individuals are members of families; as producers, they operate within firms; and a variety of less formal groups exist, such as neighbourhood or community associations and networks of producers. The greater part of production even in a modern economy is within groups (family, MNC, government, networks of firms). Yet groups are relatively neglected in economic analysis.

What is a group? There are many ways in which, and purposes for which, groups of people form. Here we are concerned with groups which undertake joint activities, typically initiated around an economic function, though they often have strong social and political roles. We define 'economic' to include both production of goods and services (marketed and non-marketed), and activities directed at securing control over resources. Most group functions (including social ones) can be interpreted as producing some economic 'output', and also many groups which come together for non-economic reasons acquire economic functions. Economic groups often spawn 'non-economic' activities too (a firm's social clubs). Groups here include firms (large and small), governments (central and local), community and voluntary organizations, and families. Some groups operate in the context of market production and exchange (firms, cartels, producer associations, unions, informal interest groups within firms, etc.); other groups operate largely outside markets (families, NGOs); and some are, in a sense, above markets (states).

ii. How groups function

Since group objectives may not always be shared by every individual in the group, a critical aspect of group functioning is how individual action within the group is kept in line with group objectives. An overview of group functioning suggests important differences in the ways in which this happens, embodied in distinct modes of operation. We find it useful to distinguish first power and control, second, material incentives, and third, cooperation.[1] Combinations of these dynamics are found in most groups. Degrees of power and control and cooperation are almost universally present, typically with some material incentives, but the *dominant* mode varies among groups. Below we describe each of these dynamics in turn.

Power/control in hierarchical relations with intra-group bargaining playing an important role (P/C)

In this mode one or a group of dominant actors largely determine what the rest will do - by using threats and sanctions of various types.[2] Threats can be backed up by norms reducing the need to use such threats and sanctions. Both the basis of unequal power and the type of threat vary with the institution.

Almost all groups contain some element of P/C. P/C can contribute to the efficiency of group operations to the extent that it is associated with reduced transactions costs. If individuals are sufficiently intimidated by, or accepting of, the power of those in control, they may do what is required without much monitoring or use of sanctions. P/C can even sometimes be attractive to those being controlled in that it relieves them of unwanted duties and responsibilities.

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[1] This three-fold classification of group behaviour overlaps with other classifications. For example, Polanyi's classification of decision-making in a non-market (planned) economy also identified three types of behaviour, reciprocity, redistribution and exchange(see Polanyi, 1957). Similar to the three types noted above, although our P/C mode covers a wider realm of decisions than redistribution alone while our COOP goes beyond reciprocity.

[2] See **Bowles and Gintis** (1993) ( ) for seminal work on this.

But the disadvantage of the P/C mode is that it can be oppressive and exploitative, contributing to within-group alienation and inequality. Moreover P/C relations may require considerable supervision and monitoring to ensure consistency, which can be costly. However, as a minor element in a mixed mode, P/C may be desirable, if not essential, from an efficiency point of view.

P/C is likely to be associated with considerable within-group inequality, as the more powerful retain a disproportionate share of the group income or benefits. However, in some societies (notably communist ones) a P/C mode of operation both within and between groups has been accompanied by a strongly egalitarian philosophy, limiting inequality.

The use of material incentives, quasi-market operations (M)

Material incentives are the second mode of operation. Such incentives dominate in a market economy and support the predominant mode of operation, i.e. market exchange in arms length transactions among and between individuals and firms.

M is used within some groups in which a quasi-market is formed, as people are rewarded (and penalized) in material terms according to their contribution to group objectives. (e.g. some health service transactions; Universities). But quasi-markets are rarely the dominant mode of operation within groups, since groups are frequently formed precisely because of the high transactions costs of market exchange.

The use of material incentives in groups is widespread in many types of group (e.g. wages and salaries, piece rates for workers, and financial penalties for disobeying group rules) and appears to be increasing as a dominant mode. Public sector reform today is moving in this direction.

M is justified by the efficiency benefits it is expected to confer. Principal-agent theory, for instance, has drawn attention to situations in which M is expected to be superior to P/C, because of the monitoring costs of P/C in the presence of asymmetric information. However, principal-agent theory has also pointed to the limitations of M in conditions in which complete contracts are difficult to write.

If M becomes dominant in situations in which implicit contracts or open-endedness are advantageous, it can erode the goodwill which is essential to make these contracts work, reducing individuals' willingness to act cooperatively or to make unreciprocated contributions. M assumes and can encourage self-interested behaviour. An example is the British National Health Service which was first developed on the assumption that people were 'knights' i.e. that 'people are predominantly public-spirited or altruistic'; when the system changed to a quasi-market system based on the assumption that people were 'knaves' i.e. motivated primarily by self-interest, cooperative behaviour and good will are believed to have been severely reduced (Le Grand (1997).

Co-operation among members to achieve group objectives (COOP)

In this mode individuals act voluntarily in the group's interest and are not mainly motivated by material rewards or reprisals. There are a number of possible reasons for such cooperative behaviour. It may be that it coincides with their individual interests; it may be that they believe that doing so will be in their *long-term interests* as they expect reciprocity over the long-term. People may also cooperate because they value the wellbeing of others in the group; i.e. their values and motives include Aristotle's *philia ;* or Sen's sympathy; or their self-image is that of altruistic or cooperative people (Hargreaves Heap, 1989). All these cases can be fitted into a utility-maximising model. In some sense, all these cases of COOP behaviour can be seen as motivated by a form of self-interest.

However, self interest does not adequately explain all group behaviour. Other factors may enter such as moral capacity, identity, norms (Bardhan (1993), Elster (1989)). Field studies show that in many cases, people are motivated by the norm of fairness: they do not want to free-ride on the cooperation of others. The internalisation of social norms depends on the degree to which individuals identify with the group. Individuals may identify so strongly with the group - for ideological or other reasons - that group interests override individual interests. An extreme example of actions taken in group rather than individual interests is that of people sacrificing their lives in the interests of others.

Membership of groups is frequently a means to reinforce or construct identity. In fact, without some form of shared identification or shared goals, the costs of group cohesion may be prohibitive. The capacity of groups to reinforce identity, a sense of self and relationships to society, in itself provides an incentive for cooperative behaviour, empowering action in the interests of the group.

Individuals may also co-operate in groups in the spirit of Mauss's 'free gift', neither expecting nor getting anything in return. They may take such action through a sense of social responsibility, a sense of duty, or commitment, or because they enjoy the activity itself, i.e. through *intrinsic* motivation (Alkire & Deneulin 2002).

Invariably there are elements of COOP in *all* group operations. Even in groups that operate primarily in P/C or M modes some COOP is needed to make other modes of operation work – since monitoring and supervision can never be sufficient to ensure that everyone is working in the group interests even in a group which is primarily P/C or M (as was pointed out by Adam Smith).

There can be different modes of operation at different levels within groups, so that relationships among managers, for examples, are on a COOP basis, but relationships between managers and workers operate according to P/C and M.

iii. A typology of groups

Groups may function to increase incomes and empowerment in a number of ways. We have found it helpful to categorize group functions into three main types, recognising that particular groups often perform more than one function at a time. Here we distinguish *market failure* or efficiency functions, *claims* functions and *pro bono* functions.

Overcoming market failures

One important function for groups, and a major reason why they have evolved, is to overcome a variety of market failures and thereby contribute to increasing efficiency in both technical and allocative senses. In many cases groups emerge as substitutes for missing markets or solutions to market imperfections. Major market imperfections leading to the formation of groups include:

- Indivisibilities leading to high transactions costs if activities are not carried out in single organisation (Nugent 1986). Given indivisibilities of production or consumption and high transactions costs, individuals cannot produce certain goods and services efficiently for themselves. Groups may be formed to produce goods (this is the case for firms); or to provide common marketing for small-scale producers, or to provide communal facilities, e.g. communal kitchens.
- Imperfect and asymmetric information giving rise to risk and uncertainty
- Externalities associated with non-excludability so that group or collective action is needed to produce public goods.

Claims

Our second category is claims groups. These arise where a major purpose of the group is to advance the claims of its members to power and/or resources. Examples are lobby groups; trade unions; many women's groups; and associations of the poor, such as the landless.

The claims may be advanced against other members of society, or against the government, or they may be advanced in international markets. Such groups may not only advance new claims but may aim to enforce legally recognized rights, for example, helping to ensure that land reforms are fairly implemented.

Pro bono functions

Pro bono functions also aim to alter the distribution of benefits within society, but they are, (in theory), mainly directed towards individuals *outside* the group, in contrast to claims groups. Pro bono functions are performed by groups in the public sector, or NGOs, and are typically associated with such service provision as health, education, micro-credit, etc.

Groups fulfilling pro bono functions also often contribute to overcoming market failures, such as externalities or indivisibilities, and to claims goals, since such groups support other groups which have these functions.

Individuals' willingness to engage in collective action in support of both efficiency functions and group claims has been analysed from an individual maximising perspective (cf. Olson 1965; Ostrom 1990; Taylor 1987; Hechter 1987; Elster 1989). This type of analysis fails to allow for the important elements of behaviour, noted above, which are not based on self-interest. Moreover, while efficiency aspects lend themselves to this type of analysis, claims functions are particularly suitable for analysis from a social and/or political perspective, with an emphasis on group identity and group loyalty which tend to be overlooked in individualistic maximising analysis.

iv. How and when groups help their members

We divide our discussion into the two broad categories already identified: market failure situations and situations where the issue is increased access to power and/or resources. Pro bono groups are actors in both situations. The analysis of what factors allow groups to contribute effectively is important, given that the literature contains many instances of failure, particularly among producer groups.

Market failure.

Our case study analysis has covered three types of market failure groups: producer associations, credit and savings groups, and natural resource management. We first review successful examples of each type in turn, then analyse the circumstances which lead to positive outcomes for poverty and empowerment.

Producer associations typically contribute to solving market failures arising from indivisibilities and from collective action problems. For example, the Indian sugar cooperatives analysed by Attwood (1998) and others**:** here local elites organised to build sugar mills which achieved efficient scale of production by buying from a large number of small producers. A political and social system prevailed which operated through intense rivalries among elites where smaller farmers were incorporated as clients. Together with the common caste affiliation of small and large farmers, this socio-political scenario protected smaller farmers from excessive exploitation by elites whilst allowing a hierarchy adequate to manage the mills effectively and provide appropriate leadership.

A similar example of economies of scale plus a collective action problem is the challenge presented by peasant farmers producing high quality coffee in Colombia (Thorp 2002). To market high quality coffee needs careful warehousing, quality control and successful marketing. Individually, small farmers could secure none of these. But an elite group of better-off coffee producers could - and did. Over fifty years they built a highly successful organisation, which needed the small producers for their output, and where the social relations of trust in the Federation were embedded in a social structure with strong P/C, some facilitating COOP, and also strong elements of M, which provided the driving force. [3]

Another successful federation was built by the cocoa producers of El Ceibo in Bolivia The producers of El Ceibo found their market niche in fair trade chocolate and cocoa. Here it is interesting that good COOP was possible because of a background in Bolivia of community organisations ('sindicatos') which, following the Revolution of 1953, were created 'to act as a bridge between local people and government and other external institutions.'[4]

More instances of successful organisation to solve collective action problems are given by Bianchi (2002). Buffalo milk producers in the South of Italy organised

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[3] Further elements were that the mountainous terrain of the coffee-producing regions meant no economies of scale in production and thus no temptation simply to take over small producers' land and so exclude them, and that in addition, the careful individual picking necessary to high quality coffee was uniquely stimulated by the incentive structure of individual ownership of the small family plot. Also, the rich coffee producers only had small coffee plots: their wealth came from other assets.
[4] Bebbington 1996.

themselves to develop a market cooperative for mozzarella, facilitated by a University professor whose family had a farm in the region. Sisal and cashew nut producers in the North East of Brazil were encouraged by a left-wing Catholic NGO steeped in liberation theology. Both groups increased income, employment and productivity. In South Italy buffalo milk producer groups had a distinct impact by exerting controls over the quality of their product thereby increasing their market, and by learning to spread buffalo pregnancies through the year to bring fluctuations in production closer to seasonal fluctuations in demand.

In each case, the focus on a particular product was crucial for success, as the source of a marketing opportunity and also to eliminate potential conflict between producers with different product interests. A common ideology, liberation theology preached by the radical arm of the Catholic Church, unified the groups in NE Brazil. Group members shared a recognition of the urgency of making common cause against the rich and powerful.

Turning next to credit and savings groups, these represent central examples where imperfect and asymmetrical information provides the opportunity for group formation to increase access to finance and control over incomes for the poor. These groups divide broadly into two camps: externally initiated microfinance schemes, and informal savings groups or ROSCAs[5]. Whereas credit schemes increase *access* to finance, ROSCAs contribute to *control* over income through savings (and also often contributing to empowerment). Both seem to have particular implications for women; in the case of credit groups this has been achieved deliberately through targeting and institutional design, while ROSCAs, especially in Africa, have mostly developed as a result of the initiatives among women. In this respect credit and savings groups contrast with many producer groups which tend to be dominated by men.

Credit and savings groups utilise the group as a form of collateral for those with few or no assets, where joint liability for loan repayment transfers the risks associated with information asymmetries from the lender to the group. This rests on the assumptions that groups will exert peer pressure on members to repay because members of the group only receive loans when previous borrowers have repaid; that groups will be more effective in monitoring and screening than more distant financial institutions, and that groups will function cohesively because they share a common social background (Wydick 1999).

Credit and savings groups can contribute in a number of ways. Rather than requiring pre-existing social bonds, these groups can be a means to *create* these bonds, especially in rapidly changing environments. Along with increased access to credit, and/or control over incomes through savings, the social cohesion engendered through these (and other) groups can contribute significantly to security against fluctuations, which is particularly lacking for the poor (Rowlands 1995). Both ROSCAs and group-based credit programmes can facilitate links with formal financial institutions, because of the efficiency gains of groups in compensating for information asymmetries.

Our final set of market failure groups comprises those which overcome externalities associated with non-excludability. Most examples come from the field of common resource management – eg fish stocks, irrigation or forestry associations.

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[5] Rotating Savings and Credit Associations.

Uphoff and Wijayaratna (2000) describe the effects of group action on water distribution for irrigation in Sri Lanka. With assistance from a local Research and Training Institute and Cornell University, farmers organised to manage irrigation, and ensure equitable distribution, including upstream farmers being prepared to donate water to downstream farmers, thus putting their own crops at risk in the event of shortages. What was remarkable was that this involved cooperation across conflict-ridden ethnic lines, with Sinhalese farmers assisting Tamils. The success of irrigation management was demonstrated in the drought of 1997 when farmers obtained a better than average rice crop, despite being told it would be impossible to grow any rice at all that year.

A similarly successful example was joint action by clustered tanneries in Tamil Nadu in the face of a pollution crisis (Kennedy 1999). Threatened factory closure evoked a collective response which allowed the clusters to survive. Cooperation by small and large firms constructed treatment plants, collectively owned and managed. Smaller factories benefited the most, as these could not afford to build their own treatment plants. Cooperation was to the advantage of larger firms, however, because the disappearance of small firms would have reduced the flexibility on which the clusters depended.

Having considered a variety of situations where groups contribute successfully to the solution of market failures, let us now ask why these groups work? Among a number of important factors are the identification and exploitation of a good market opportunity, above all for the producer groups; secondly, social legitimacy and a local social structure which is supportive of the group operations; thirdly, (related to this), a situation which permits appropriate levels of leadership without endangering cooperation; fourthly, supportive ideology; fifthly, supportive institutional design; and finally, the appropriate catalyst for the forming of the group.

First, a market opportunity. We found economic viability to be crucial in every instance of a successful market failure group. Among many more such examples, those we have quoted above fall into this category. Both sugar and coffee had dynamic markets through the key periods of building up the Indian sugar coops and the Colombian coffee federation; so did cocoa while another successful Federation was built by the cocoa producers of El Ceibo in Bolivia; the same was true of the buffalo milk producers and the sizal and cashew nut cooperatives.

The second set of factors is more complex. Our earlier description of the Indian sugar cooperatives and the coffee federation in Colombia showed how these successful groups reflected and made use of existing social structures. In successful resource management groups, similarly, the mobilisation of mutually beneficial social networks and institutions is important. In the Sri Lankan irrigation case study above, Farmer Representatives, chosen by consensus, contributed to the development of rules, roles and procedures for reaching decisions about collective action, and resolving disputes. A traditional institution, *Shramadana* or the donation of a gift of labour, was mobilised to create a cooperative ethic, reinforced by supporting religious beliefs. Rules, roles, procedures, precedents and social networks were thus bolstered by morals, norms, attitudes and beliefs, in the form of egalitarian values, generosity and altruism. In the pollution case in Tamil Nadu, horizontal collaboration was facilitated by strong social ties, including close-knit communities and the prevalence of Islam among factory workers. Also significant was prior experience of low-level cooperation as a consequence of modernisation twenty years previously.

In the same line, it is social legitimacy that gives ROSCAs their advantage: unlike externally initiated lending schemes, ROSCAs have the huge advantage of being rooted in local social norms and bonds; this helps them be highly flexible and responsive to specific needs. Control of capital and group management rests entirely with the group, and thus levels of autonomy and responsibility are high. Operating through a group instils the discipline to save through group encouragement and solidarity which would be hard to achieve individually, especially for women. Groups in this sense play a protective role against the demands of kin and clan(many groups involve secrecy for this reason). [6] ROSCAs rarely suffer from defaulting and have been highly successful in increasing empowerment, especially for women.

Thirdly, leadership, sometimes from within the group, sometimes from outside, has been found generally to be vital for group success[7]. In the cases cited, it was the internal differentiation of each group, and elements of P/C at the local level, that allowed leadership to emerge, in the context of mainly COOP relationships. But this is a balancing act: P/C at the local level often leads to dependence or exploitation. An important issue, as Bianchi argues, is learning what fosters the kind of group that generates or attracts socially-conscious and effective local leaders. It is also important to understand what permits members to delegate a degree of autonomy to these leaders. It may be the homogeneity of values that allows clarification of and agreement on group goals. Some form of democratic control by members is clearly important here. Alternatively, it may be a hierarchical local social structure that makes some form of leadership acceptable, as in the Southern Italy case and in the Southern Indian organisations analysed by Wade (1987). Leaders in turn were clearly attracted by having enough autonomy of decision-taking to be able to achieve their goals.

Fourthly, ideologies which support groups in bonding within the group and in negotiating relationships of power can also be important. . These structures can influence internal dynamics (M, P/C, and COOP) as well as relationships between groups and the wider society. In North East Brazil, the success of cashew and sisal cooperatives depended on a liberation theology which united the interests of the Catholic NGO and local producers. In Bolivia it was a history of grassroots political organisation in the form of 'sindicatos' which gave an upper peasantry the

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[6] ROSCAs may be the only, or prefered institutions through which to save for many who lack access to, or distrust, formal financial facilities. They can also act as collateral for credit arrangements outside the group (Bortei-Doku &

Aryeetey (1995)), and provide a forum for networking. Even more than efficiency-related functions, it is the *social functions* of ROSCAs which generate the most substantial forms of 'interest' for particpants. ROSCAs provide a strong support group, which is particularly valuable for those operating in insecure political, social or economic conditions. For this reason, ROSCAs are often found in cities or among diasporas, where links with other institutions are weak. Examples are to be found among Shebeen (illicit) bar owners in South Africa (Burman & Lembete 1995), and weaning mothers among urban migrants in Ethiopia (Almedon 1995). ROSCAs may also play a quasi-political or 'claims' function, to redress imbalances of power. For instance Anderson and Baland's (2002) analysis of ROSCAs in a Nairobi slum showed that they were used by married women to gain more control over expenditure in the household, increasing bargaining power and facilitating independence from husbands.

[7] See inter alia Anand 2002

organisational experience to start a cocoa cooperative. In India cooperation was assisted by the intense political rivalries between elites which instituted a kind of 'democracy', with elite groups dependent on the support of smaller peasantry and therefore less inclined to abuse their power. Conversely, in Italy it was a hierarchical culture which enabled a cooperative group to tolerate strong leadership. In all these cases, socio-political structures and ideologies were an important element facilitating cooperation across heterogeneous categories to enable market efficiency.

Fifthly, institutional design has been argued to be important in the success of savings and credit groups. A key issue is the potential trade off between the discipline needed for economic viability and the objective of generating genuine empowerment for all group members. Montgomery has suggested that group-based micro-finance schemes can be designed to play a 'policing' or 'protecting' role (Montgomery 1996), depending on the relative weight accorded to the twin aims of financial sustainability (protecting the lending institution), and development (empowering the poor). He has suggested that impact on groups members is highly sensitive to institutional design.For example, he argues that while emphasis on peer pressure in BRAC in Bangladesh has been successful on efficiency grounds, it has also contributed to the erosion of trust and support, and the likelihood that the poorer and more vulnerable will be excluded. Others corroborate this point, arguing that the disciplinary nature of many microfinance programmes has had an adverse effect on participants, who undergo high levels of stress and hardship associated with the pressure to repay [8]. Conversely, where groups have higher levels of responsibility and autonomy (including ownership of lending capital), and groups primarily perform monitoring functions rather than exercising peer pressure, the objective of financial sustainability can be achieved and empowerment increased. Wydick (*ibid*) in Guatemala and Montgomery (*ibid*) on SANASA (Sri Lanka) both show that the monitoring function of groups plays a key role in financial sustainability *and* empowerment in microfinance groups.

Finally, group formation often needs a catalyst – and the nature of the catalyst is crucial. Internal leadership is the healthiest form, subject to achieving the fine balance between leadership and domination/exploitation. The role of the external agent emerges from our case studies as complex, yet sometimes crucial. Pro bono groups – usually NGOs – can be a vital actor, yet also damaging to long term sustainability. For example, the producers of El Ceibo found their market niche in fair trade chocolate and cocoa: they would never have achieved this without the extensive and long-term role of the German Development Service, providing marketing and technical help as well as funds. However, although basically a well-played external role, it is still acknowledged to have produced excess dependency (Bebbington 1998).

External actors are very frequently seen as *the* source – or at least a major source – of the frequent failure of cooperatives. The usual reasons given are that the external actor is using the wrong conceptual model, is ignorant of the local social structures and other local conditions, and/or has created dependency.[9] However, external actors can

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[8] Goetz and Gupta 1996, Masud Ahmed & Chowdhury 2001, Rahman 1999, Marr 2003.

[9] Examples of failure in relation to CBNRM are Mahanty (2002), Li (2002), Agarwal and Gibson (1999), Cambell et al (2001)); in relation to Credit: (Montgomery (1996), Bennett et al (1996), Masud-

succeed, and need to do so, given the importance of outside actors in success stories as well as failures. Clearly, high levels of genuine participation among group members are important for projects to achieve local legitimacy and support, as are in-depth stakeholder analysis and appropriate institutional design to address fault-lines of conflict and power (Mahanty *ibid*, Leach et al 1999). Sufficient dedication to empowerment can make pro bono groups sensitive to how *not* to create dependency, and we have seen examples above (the NGO supporting the cooperatives of North East Brazil, for instance.)

An interesting variation is the pro bono group formed by interested parties very close to the problem, and hence with at least the possibility of enhanced insight and sensitivity (though one can think at once of counter examples). A positive instance is TASO in Uganda, the first NGO formed to work with HIV/AIDS sufferers – by the families of HIV/AIDS sufferers, and including some in the founding group. This group achieved much, as Lorgen (2002) makes clear, until paradoxically external donors, responding to the worldwide shift in norms, began to ask for changed and more market-oriented behaviour. Lorgen traces the way in which the new emphasis by international donors on accountability *to them,* and on business-like behaviour, may conflict with COOP practices. Yet those same COOP practices may sustain NGOs' own type of accountability to their partners, beneficiaries or members, and may also be a prime reason why the donors wish to work with NGOs in the first place.

The role of external agents has been crucial to the success of group-based micro-finance, particularly in relation to what Bennett et al (1996) refer to as 'social intermediation': training and skills development; indirect support through education and welfare programmes; facilitating links with financial institutions; group building and conflict management. However, where this role is excessively disciplinary and interventionist, it may result in success with respect to efficiency, but at the expense of empowerment, social cohesion and financial responsibility.

Summarising, many market failure groups including poor producers do develop, and do raise incomes, and often empowerment, of the poor. We have emphasized, first, the need to identify a market opportunity, especially for producer groups; second, the role of norms, values, and social and political processes in enabling cooperation, often across heterogeneous categories, so that leadership, hierarchy and incentives all function; third, the requirement for appropriate institutional design to foster cooperation and communication within groups; and finally, where external actors act as catalysts, the importance of *not* creating dependency, but assisting in the formation of crucial external links.

Claims functions.

We encountered far fewer instances of claims groups in the literature, and in our own research only two of twelve groups were exclusively in this category. But where they have been studied, they are typically far more successful in improving the position of the poor than are market failure groups. Their underlying purpose is empowerment,

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Ahmed et al.(2001), Rahman (1999)); in relation to the state and coops in Africa: Akwabi-Ameyaw (1997), Hyden (1988).

and they can succeed; the external agents that work with them/catalyse them are ex hypothesi focused on empowerment.

Claims groups may often move into income-generating activities, because this is an important means of consolidating the group, frequently with useful feedback mechanisms. And when they do embark on income generating activities, group solidarity and the sense of identity they bring with them stands them in good stead. The only weakness, identified by Bebbington (*ibid*), is that they may be biased towards inappropriate decisions from the point of view of economic viability (for example, going for activities that allow distribution of benefits to all members when these may not be the most productive use of resources): the trade off between economic viability and inclusiveness is hard to avoid. But a virtuous circle identified by Bebbington may help: as the economic benefits of good forest management become apparent in better prices, for example, more forest dwellers may be mobilised to join the claims movement.

Interaction between the efficiency function and the claims function is also argued for women's credit and savings groups (already discussed above). In Mahmud's (2002**)** study of women's credit groups in rural Bangladesh, the creation of a savings fund promoted a sense of unity and solidarity, as well as bargaining power; it furthered a healthy democratic decision-making process concerning its development and use; and it held the group together. The most important overall effects of these groups appear to be the "self esteem, self-confidence, empowerment [and] mutual support" that might bring "benefits to growth and development" in the longer run (p15-16). She finds evidence that COOP is valued for itself, for creating solidarity and empowerment. Male family members support these groups, benefiting from the loans and other gains that women bring to their households. The groups have had strong political and NGO backing.

As to the secret of success, the factor which emerges from our case studies as overwhelming is identity. The relation between identity and effectiveness is illuminated by another example from our previous study. Gooptu's (2002) analysis of sex workers in Calcutta takes further some of the issues raised by Mahmud. She shows that one of the most diverse, fragmented, internally competitive and conflictual sets of individuals can become an effective claims group. She emphasizes the role of opposition to oppression, as do others (e.g. Mahmud and Bianchi). As did the oppressed and impoverished small farmers of the North East of Brazil, so the 'socially marginalised and stigmatised' sex workers of Calcutta created a positive identity. Gooptu also confirms one of the insights of Mahmud's study: the valuing of COOP for itself, as a force for empowerment.

Gooptu's case study traces the formation of an organisation of poorer sex workers, the DMSC. Beginning in 1995, and arising out of NGO and public sector concern for health in the face of the AIDS epidemic, the DMSC found a way to create a group from unlikely candidates. The DMSC started with collective action for sex workers to achieve legal recognition and to defend themselves against abuse and violence. The secret of the DMSC's success was a growing capacity to create a positive identity that was enabling, leading to social responsibility being manifested where previously it was 'immobilised' (p23), for example in action against child prostitution and AIDS prevention. The results reinforced self esteem and capacity, vividly expressed throughout the interviews in metaphors of liberation, dark and light: 'I felt I was released from a dark room and could see the sunlight' (p12).

The capacity of groups to express and mobilise social/cultural/political identities makes them powerful actors in social change, where they can become instrumental in exacerbating or challenging structures of inequality. This capacity is particularly important for poverty, negatively and positively, both in relation to groups formed among elites to exclude the poor, and for groups formed among the poor to challenge elite control. Shared identities can be the basis of group formation. They can also be created through groups, where social or political identities emerge or are reinforced as a consequence of joint action, as Gooptu's article shows. It is the capacity of groups to unite individual interests through building a common identity, that makes them so potent as a forum for social action.

The importance of the capacity of groups to construct or cohere identities has also been emphasised by Kaplan (1997) describing how women in a squatter community in Cape Town (Crossroads) who previously had no links, came together to form a highly successful action group which challenged state-sponsored eviction attempts and was even instrumental in the overthrow of apartheid. The group increased their strength through seeking the assistance of middleclass rights groups, and soliciting extensive media publicity for their cause. Despite the eventual destruction of the squatter camp a decade or so after the movement started, members of the group went on to form a rights group of their own, which now campaigns on behalf of other marginalised communities in the context of the new South Africa.

This is an example where political struggle by a grassroots group in a marginal and fragmented community (urban squatters), was able to transcend local concerns to become part of a broad-based rights forum capable of addressing wider issues of poverty and deprivation. External agents facilitated this process, but the main catalyst was the political struggle engaged in by the group themselves. As with the case of sex workers in Calcutta, the Crossroads women came together not because of prior social ties, but because of a common experience of deprivation out of which they created a unifying identity which enabled political struggle. Also important was the repressive character of the state, which crystalised and politicised what was essentially a campaign over housing, into a unified assertion of rights. [10]

2. The disadvantage of the poor.

We now turn to the heart of our argument. Groups potentially do offer an escape from chronic poverty. However, the poor may be less likely to form groups in the first place, less likely to make a success of groups, and the poorest may typically be excluded from successful groups. What are the main factors inhibiting successful group formation among the poor?

i) Lack of assets

Poverty is associated with lack of education, capital, labour, social status and other assets. Yet these make important contributions to group formation and organisation.

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[10] Foweraker discusses a similar role for the state in Latin and South America, arguing that the weakening of the state in recent decades, and its subordination to international agendas, has also weakened and fragmented claims movements at the grassroots (Foweraker 2001).

Hence the poor are structurally weak in terms of group formation, relative to others in society. In relation to market failure groups, the poor often cannot make productive contributions that make their inclusion worthwhile. This results in what many have analysed as a middling effect, whereby the poorest and richest tend to be excluded from groups[11]. While the rich may not need groups in order to produce efficiently, the poorest may be excluded because they have no assets to contribute to group enterprises.

Land ownership seems to be essential for participation in agricultural cooperatives, thereby automatically handicapping the poor and excluding the poorest.

Another reason why the poor are handicapped in forming groups aimed at overcoming market failures is that generally their individual gains are quite small because their assets are small, sometimes a minute fraction of the total gains. The gains of larger players can be big enough to make it worthwhile for them to organise quite complex groups, and put considerable energy and resources into this. [12]

Education can also play an important role in mobilising links, and in the motivation to join groups in the first place. Evans et al (1999) show that the extent of female education correlated positively with participation in credit groups among the poor in Bangladesh. Nelson's (1995) analysis of a ROSCA started in a Nairobi slum showed how the group mobilised their scarce educational and political resources, which eventually enabled them to form a lucrative cooperative and engage with formal financial institutions (one member of the group was literate and one was the secretary of the local political party branch).

Poverty is associated with lack of social status, which also contributes to exclusion from groups. In her study of women's groups on Mt Kilimanjaro in Tanzania, Mercer (*ibid*) found that groups were mainly comprised of 'respectable' women from middle-level families who used groups to demonstrate their upwardly mobile status. The richest women had no need to do this, and the poorest were excluded on social grounds. This relates to the critical tendency of groups to reinforce rather than challenge existing structures. Groups can enable individuals to reinforce or increase their (economic and social) status through *conformity* to dominant social and political norms.[13] Marginalised categories, by definition, may be excluded from this process, and may be more likely to achieve economic, political or social objectives through the more arduous and demanding route of *challenge*.

ii) Lack of access to markets, networks

The isolation which poverty entails is a major disadvantage in relation to networks and links. These are crucial, both in relation to the capacity for group formation, and to the success of groups. They result in asymmetric information about opportunities.

As we have seen, access to markets and market opportunities is critical to the success of efficiency groups. When we reviewed the successful instances of efficiency groups,

[11] E.g. Mercer (2002), Weinberger (2001), Molinas (1998), Hulme & Mosely (1996)

[12] (see Olsen (1965) and Wade (1987)).

[13] Bourdieu 19

an outstanding characteristic was the importance of a market opportunity – i.e. a space in the market. We have seen how this is stressed by Bianchi in his comparison of the producers of buffalo milk in Southern Italy with sisal and cashew nuts producers in the NE of Brazil, and also in the case of the Coffee Federation of Colombia. The same point is made by Bebbington in relation to cocoa cooperatives in Bolivia.

The poor often lack access to *social networks* which can be a major disadvantage in the potential success of groups. Bebbington shows how class distinctions in South America inhibit the capacity of Peoples Organisations to make the relevant connections with technical 'experts'/financial investors which are crucial to their capacity to enhance productivity.

Limited networks among the poor – which are generally strongest within their own income group – limit knowledge about and access to market opportunities. Lack of social networks may also inhibit group formation in the first place. Destitution may leave little space for networking. Deprivation tends to worsen some forms of conflict and thereby damage trust. The isolationism of poverty may be particularly acute in rural areas. Many studies find cooperatives or credit unions are more likely to form nearer towns, where there is some prospect of transport and increased access to markets etc (e.g. Meinzen-Dick et al (*ibid*), Lam (*ibid*)). While pockets of extreme poverty can exist everywhere, poverty maps show a distinct relationship to geographical proximity to transport, etc.

iii) Lack of Rights

We have suggested that access to political institutions has a crucial bearing on the capacity of groups to succeed among the poor. Access is strongly influenced by rights or political entitlements. Lack of citizenship, territorial claims, influence and so forth, can be crippling. For example, Johnson and Forsyth (2002) found that, despite the adoption by the Thai state of legislation to promote community forestry, certain groups were unable to benefit from this due to lack of political entitlements. These included immigrants of the last 100 years living in upland terrain who were not able to claim citizenship. In Southwest Thailand informal political structures were used to subvert the uptake of the bill by a rural peasantry which was ethnically distinct, predominantly Muslim and traditionally under the control of a paternalistic state. Local officials in charge of enforcing community rights had strong ties to industry which informally obstructed the capacity of local communities to take advantage of the new provisions.

In many countries, immigrants, squatters and scavengers frequently suffer from similar disadvantages in terms of their lack of formal status and political entitlements, which makes it hard for them to organise and act as a group. Lack of political entitlements is not only disempowering in relation to formal political institutions, it can also inhibit the capacity to resist informal structures of exploitation and domination. This can be seen in the very low probability of successful group formation among the poor in highly stratified societies. Extensive study of cooperatives in South Asia highlights social stratification as the key explanatory element for why formal and informal cooperation is almost totally absent in some regions and a common feature of others. This seems especially true where caste and ethnic factors interact with class. For example, in the wet-rice areas of West Bengal[14] the only 'cooperation' found is a form of forced labour for building roads, whereas in other parts of India, such as Maharashtra, sugar cooperatives have been a significant success story. The same element is cited for Latin America by Molinas [15] : in Paraguay in rural areas rich individuals can obstruct cooperative working with little difficulty: in Northeast Brazil, a strongly hierarchical culture has resulted in lack of mutual trust among the poor, and the stifling of participation in cooperative ventures which are dominated by elites and used to bargain for subsidies from the state (Almy 1988). The implication of this finding is that the poor are disadvantaged, being 'trapped' at the base of a socially-stratified system, with no possibility of challenging this condition.

Given the importance of assets in the formation of efficiency groups**,** the success of claims groups seems more resilient to the level of poverty – *if* the group can form at all (we have seen above that social stratification, lack of access and inability to network are serious disadvantages for the poor in forming claims groups**).** Claims groups can address the question of rights, which can be a pre-requisite to increasing incomes and empowerment for the poor.

iv) Dependence on external intervention

As noted earlier, most studies of group ventures among the poor stress the importance of external actors – the state, an NGO, social activists etc. The poorer the group, the more important this outsider role – though we have demonstrated that internal leadership can be successful. Yet, as argued earlier, such external leadership roles typically go wrong – or so it would seem from our literature survey. If this is so, then the poor, by their very dependence on such actors, are disadvantaged. In many cases it is the appropriation of groups to ideological, political or economic ends external to the group, which results in disaster. Many cooperatives formed by the state in post-independence Africa for example, have suffered from subordination to ideological and political ends[16]. Similarly, forestry groups and microfinance groups have often suffered from subordination to external objectives (environmental conservation, financial sustainability etc) which has resulted in lack of genuine participation, and the disempowerment of so-called beneficiaries.

Richer members of groups who play a networking role, can substitute for external actors. But combining rich and poor in the same group is only likely to be successful, from the evidence we have seen, when the rich truly need the poor (as with Colombian coffee or the Indian sugar mills). Such 'mixed' groups often lead to unequal distribution of the benefits, and are rarely significantly empowering for the poor.

2.3 Groups and the very poorest

[14] Bandyopadhyay & Von Eschen 1988.
[15] Molinas 1998, 421.
[16] Akwabi-Ameyaw (1997), Baviskar et al.(1988)

What of the degree of exclusivity of efficiency or claims groups? The problem for efficiency groups is that they almost always have barriers to entry. Producer associations have barriers de facto. Land is usually the crucial factor: the landless are automatically excluded from any successful agricultural production venture – for example the sugar cooperatives analysed by Attwood (1988), or the Anand dairy cooperatives of India (Attwood & Baviskar 1988) or the buffalo milk producers of southern Italy (Bianchi 2002).

The great asset of claims groups, by contrast, is that because they are about voice, they do not exclude. The problem of inclusion then lies with other variables: caste, gender, ethnicity etc.. But even some claims groups may exclude for cohesion – though the Bangladeshi forest groups excluded the rich as well as some of the poorest. Females are often excluded, or have disproportionately small voice (Agarwal, 2002).

When claims groups move into productive activity, as shown above, they will at least initially take with them their quality of inclusiveness – though as the economic function develops this may lead to the emergence of barriers to entry.[17]

3. Examples of success in inclusiveness

We have already mentioned the various claims groups as inclusive by their nature. The problem lies with efficiency groups. We have however encountered instances which we find suggestive, two of which we analyse below.

The first concerns 'scavenger' coops.[18] Scavenging - the informal collection of materials from waste by individuals – is estimated to be the occupation of as much as 2% of the population of Third World cities. The scavengers are the true marginals – associated with disease and squalor, perceived as a nuisance and probably criminal, and exploited. They sell waste on to middlemen: studies in Asia and Latin America have found the scavengers receiving some 6% of the price industry pays to the middlemen. In the 1990s, simple organisation into groups has resulted in successful coops. In Latin America the most vigorous instances come from Colombia, with Brazil close behind and Mexico often cited. In Colombia, for instance, the cooperative *Recuperar* in Medellin, by the mid 1990s had almost 1000 members, 60% women, with members earning 1.5 times the minimum wage, being eligible for loans and scholarships from the coop.[19] In Asia a similar movement has gained momentum in the 1990s, with examples in India, the Philippines, Indonesia and Bangladesh.

In both Asia and Latin America, emphasis is placed on dignity and empowerment. In Manila the scavengers have become 'eco-aides'; in Chennai 'street beautifiers. Communities obtain loans to acquire tricycle carts and green uniforms to collect waste in middle-class areas. With organisation and a little external support, the groups appear to extend their activities relatively easily, to the processing of waste, various

[17] This happened with some of the groups researched by Bebbington (1998)
[18] The following draws on an article by Medina (1998).
[19] Medina (*ibid*)

urban cleaning services and the provision of fertilizer.[20] The health benefits are also clear: the risks around used needles and unprocessed waste are great.

In the case of scavenger cooperatives, it would seem that an external catalyst has always been involved, though more research is needed on this, as on the degree of eventual financial self sufficiency. It appears that the financial input is modest (sometimes a local businessman rather than an NGO). In due course, the coop may exclude. But the benefits of starting from such a low point are clear, as is the potential for an upward route for the poorest.

It is already clear, however, that the key in every such case is the green light from municipal authorities. This is where the effective barriers to entry lie. The municipality must licence and monitor such activity for it to flourish – and there are instances where the municipality does not wish to offend useful friends by diluting the monopoly of existing middlemen. In other instances, particularly with a change of government, local mayors have seen the potential for generating political support both among the poor and the middle class interested in a better and safer urban environment. This brings us to an important theme: the route out of chronic poverty may often need a relatively honest broker in the state, frequently at the decentralised level, where it may be a particularly scarce resource.[21] It is surely no accident that the two Latin American countries where these success stories are most common are also the two with the most vigorous process of decentralisation.

The second kind of instance comes from efficiency groups where the culture of inclusiveness is for whatever reason able to be sustained, without too expensive an efficiency trade-off, or in the best cases, with beneficial feed backs on efficiency. An instance useful to analyse is the credit federation, SANASA.[22] Here the Federation is a Sri Lankan NGO which has seen it as its mission to sustain a culture of inclusiveness.[23] 52% of the members are reported to be below the poverty line in Sri Lanka. The culture is extremely participatory, with the accounts posted on the office walls and open meetings. Each member society is run by its own members and depends almost entirely on its own money (termed 'hot money') for its loans. The group is always available at short notice to consider a neighbour's crisis, and great flexibility is practised. High repayment ratios are nevertheless maintained by a sense of ownership and group solidarity. The culture is firm: defaulting on 'hot' money is stealing from your neighbour. The Federation uses ''cold''or outside money to fund the infrastructure such as training courses for members. The Federation leaves the management to members, its own role being to pass on lessons from other societies.

The authors who have studied this case find it to be genuinely inclusive and able to support weaker members (Hulme and Montgomery (1996)). They hint, however, that the success is partly a product of relatively high levels of education in Sri Lanka, and partly reflects Sri Lankan society's relatively unstratified nature: their point of comparison is the more rigid Bangladesh, where, Montgomery argues, BRAC's high

[20] Field visit by Thorp to Waste Concern in Dacca, Bangladesh, in September 2001. There the NGO had made a contact for the group with an agricultural distributor who now buys sterilized waste for fertilizer

[21] Lee(1998) makes the same point in relation to housing groups.

[22] Drawn from Montgomery (1996); Hulme and Montgomery (1996).

[23] It should be noted, however, that initially the members of the federation were the better off groups, and there was opposition to extending the membership to include poorer societies

level of discipline probably does exclude the poorest, but is also a reflection of the stratified society.

Nevertheless, the SANASA study stresses the importance of ownership and autonomy in influencing the groups' ability to be inclusive without suffering loss of economic viability, and indeed consolidating the level of trust and community spirit so as to sustain both inclusiveness and economic success.

Concluding, then, on inclusiveness: we do find that groups can help the poor without excluding the even poorer, and thus can provide a route out of chronic poverty. This is most true for claims groups, but can even be true of efficiency groups. We have seen consistently that efficiency groups are the more inclusive, the more the technical factors at play invite them to be, usually because of a need for volume of throughput, and/or because free rider activities may impair success of the group unless it is inclusive. We have looked at the possibility of groups among the poorest when there are no technical barriers to entry, though the example we analysed was vulnerable to political barriers to entry and dependent on the goodwill of local government. Another factor that has emerged again concerns the support context: the need for pro bono groups that understand the subtlety of what they are about, that have a dedication to empowerment and building autonomy and that see the potential for inclusiveness to strengthen the social fabric. An ideal situation we have delineated is where the empowerment aspects of a successful claims group can reinforce its economic viability, and economic viability reinforce empowerment, with an external pro bono group providing the initial catalyst, and able to facilitate autonomy, ownership and self sufficiency.

4. In conclusion.

We have argued that groups do indeed potentially and in numerous instances in practice benefit the poor. We have taken examples from a wide range of cases to demonstrate the dynamics that lead to success. For market failure groups we have emphasized the importance of market opportunities – economic viability. But we have also emphasized 'social' viability: the need for a finely-tuned balance between leadership and domination, between hierarchy, equity and the need for organisation and leadership. For claims groups we have emphasized the role of identity – not necessarily pre-existing but created by the very activity of the group. In all cases we have seen the double role of external agents, including pro bono groups – they are in principle important and sometimes vital catalysts, yet often also play a negative role, especially in relation to empowerment and thereby long-run sustainability. This has led us to stress the value of internal leadership as the catalyst.

In general, a theme implicit in our analysis which should now be brought out is that those suffering from chronic poverty may benefit at least as much from political and social initiatives as from economic initiatives. What we mean by this is that groups formed to enforce rights, or improve their economic/social/political position (basically claims groups) are likely to improve the position of their members, by creating and enhancing cohesive identities and improving a sense of self-worth. These outcomes in turn are likely to lead to economic benefits – improving the potential for the group to form viable economic enterprises, and/or to improve their share of economic benefits being generated anyway. This is because economic ventures rarely work without this sort of cohesion among people with very limited assets of all kinds, and also because isolation, political marginalisation and social exclusion are so central to poverty and need to be addressed before long-term economic initiatives can be successful. Groups formed to address poverty will invariably be involved in some sort of challenge to the dominant status quo. The *political function* of groups is thus of primary importance. It is perhaps for this reason that groups formed by the poor in societies which can draw on an historical experience of grassroots political activism, appear to have greater potential to be successful in producing long-term change (Bolivia has been the clearest example of this in the paper).

Isolated examples of effective group formation among the poor, by their nature, can have only limited impact in macro-terms. The groups which have most chance of having an major impact on poverty are those which are widely replicated. Consequently, federations, and even more those federations of groups which achieve representation at higher levels, are most likely to have significant effects on chronic poverty (Bebbington, Agrawal and Gibson, Thorp). Sheer numbers may achieve something of the same effect – eg women's groups in Africa. But we need to consider the impact on incomes and empowerment, not just the numbers. ROSCAs, for example, while numerous and relatively empowering have had limited impact on poverty, lacking any real income generating impact.

Another theme which has appeared at various points is the potentially important role of the state, both at national and local levels. Municipal governments in particular can play a crucial role – eg in relation to squatter communities, scavenger enterprises.

An important conclusion has been that successful market failure groups among the poor tend to exclude the layers below – a tendency that is increased by the pressures of the market model. But we should note that even if the groups do exclude the very poorest, so long as they are formed among poor people, they will contribute to poverty reduction. We should not be so concerned about reaching the poorest that we prevent such groups forming, or damage their effectiveness. Rather we should make special efforts to form groups among the poorest. We return to this in our policy discussion below.

5. Implications for policy.

It seems to us that the above analysis signals some important policy directions.

First, group formation can be an important way out of chronic poverty and a mechanism of empowerment, which itself may improve the bargaining position of the poor. But the poor are relatively handicapped in forming groups, so policy needs to be addressed to supporting viable and inclusive groups among the poor.

However, threatening this as a strategy is the shift to market norms as the dominant societal paradigm, which is creating a serious threat to the normative elements we have identified above as important for the poor. It is difficult for individual groups to challenge dominant market norms (Stewart, 2002). While most groups need a mix of modes of operation, cooperation is crucial to the strength of a group, particularly if empowerment is truly a goal. This conclusion needs to be propagated and developed to condition the wide-spread and unfounded propagation of the market gospel: this is a policy recommendation for international organisations, NGOs, and governments who can be persuaded to look seriously at such research, and implies a whole raft of specific policy recommendations. Nonetheless, despite hostile dominant norms, successes do exist, and it should be a policy for national and local governments and NGOs to document and promote such successes.

Effective policies of decentralisation, based on serious devolution of power and resources with adequate support to create accountability and true understanding of development, can be an important mechanism of support to many of the group activities we have reviewed – and can in turn be helped by groups, generating a virtuous circle.[24]

Pro bono groups, generally coming out of donors, governments or NGOs, could surely be helped to avoid so frequently being part of the problem. More enlightened national monitoring of such groups, more analysis to guide such monitoring, more elaboration of 'do and don'ts' with good psychological foundations would all be constructive steps.

Specific policies are needed to reach the poorest, either by extending groups among the poor to include the poorest, or by specific initiatives. Those determining research agendas should promote more research on how and how far groups that favour the poor often exclude the very poorest, and what specific initiatives might reduce or compensate for this. Ways in which this can be achieved include:

- increased backing and support for departments or ministries of cooperatives with explicit briefs to include the poor; ✍
- credit systems which favour groups of poor people. This can be achieved by regulations of the banking system that demand a certain proportion of loans to low-income activities (as in India).[25] Strong government and international support for particular institutions can also work in this direction, as in the case for example of the development of the Grameen Bank and other institutions in Bangladesh. While these were mainly the results of the initiatives of a few individuals who formed powerful NGOs, their widespread effects stem from the strong support they gained from the government and the international community; ✍
- legal, financial and technical support for groups formed to enhance the claims of the poor. This would include legal systems which make it straightforward to form small scale collectives; and the legal recognition of group ownership of assets; ✍
- policies to promote work on the valuation of non-market returns to be included in any evaluation of group activities. Valuation of these returns can be a means of protecting groups such as NGOs and communities against the pressures of shifting paradigms (cf. Lorgen 2001). ✍

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[24] For example, some local committees of the Colombian Coffee Federation today actively monitor and lobby local government (Thorp 2002).

[25] Such a regulation accounts for the development of the successful Self-Employed Women's Association in India (SEWA)

- ?? work in the area of 'informal institutional design' to identify ways of fostering information flows, trust and voice so that the balance of norms and attitudes within groups favours equity. NGOs can play a useful role in this regard, as indicated by the study of Bangladeshi women's groups; ✍
- ?? development of appropriate training for people to initiate and develop group formation among the poor. ✍
- ?? policies to contribute to the institutional needs of macro-economic restructuring: these should pay attention to the role of groups as facilitators, and to the possible vulnerability of groups which become exposed to competition too abruptly.

Finally, it is important to try to offset the impact on the poor of groups that exclude the poor (eg employer federations). Fostering democratic institutions and safeguards in the society at large may be helpful. So may strengthening institutions that support enforcement, conflict resolution etc. Competition laws can reduce monopolies, and abuse of power. Propagation of successes where inclusivity reinforces viability, and how, should also be an important tool.

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