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Mini Review

From State Mandate to Village Prosperity: Critical Policy Recipes for a Successful Government-Driven Rural Cooperative Movement

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Abstract

Government-driven, top-down rural cooperative movements have re-emerged as strategic policy instruments in developing countries as states seek scalable pathways to reduce rural poverty and promote economic inclusion. Yet history repeatedly shows that state-sponsored cooperatives often fail when they prioritize compliance over community ownership, and administrative targets over genuine economic viability. This mini review synthesizes findings from recent empirical and policy literature (2019-2026) to identify critical policy recipes for making a government-initiated rural cooperative movement genuinely successful and beneficial to villagers. Six interconnected pillars are identified: (1) legal and institutional enabling environments, (2) adaptive government intervention that preserves cooperative autonomy, (3) capacity building and human capital investment, (4) access to finance and market integration, (5) leveraging social capital and participatory governance, and (6) digital transformation support. The review concludes that success requires a deliberate transition from state-directed initiation to community-owned operation, underpinned by consistent, phased, and locally responsive policy.

Introduction

Rural cooperatives occupy a unique institutional space in the landscape of development policy — simultaneously vehicles for collective economic action, instruments of state intervention, and expressions of community solidarity. Across the Global South, governments have periodically launched large-scale, top-down cooperative movements as flagship programs to address rural poverty, market exclusion, and income inequality. Indonesia's recent program — targeting 70,000–80,000 villages with state-allocated seed funds — exemplifies this renewed state activism [1]. China's "targeted poverty alleviation" campaign (2015–2020) similarly used cooperative development as a measurable criterion for the success of government intervention at the county level. Despite such high political commitment, state-sponsored cooperatives frequently underperform or collapse due to institutional dependency, governance deficits, and disconnect from local socio-economic realities [2].

The central question this mini review addresses is: Under what policy conditions can a government-initiated, top-down rural cooperative movement successfully transition into a sustainable, community-owned movement that genuinely improves villagers' prosperity? This question is highly relevant as multiple governments in Asia, Africa, and Latin America are actively debating the scope and design of such initiatives. The review draws on peer-reviewed literature from 2020 to 2026 across the social sciences, development economics, and rural governance, synthesizing evidence into actionable policy frameworks [3].

The Paradox of State-Led Cooperatives: Rationale and Inherent Tensions

The academic debate on government intervention in cooperative development revolves around a fundamental paradox: cooperatives by definition are member-owned, autonomously governed institutions, yet in poor rural areas lacking capital, organizational capacity, and market access, externally driven initiation may be a practical necessity. Zhang et al. demonstrate, through the XM Beekeeping Cooperative case in Sichuan, China, that government intervention is crucial for building cooperative ecosystems in poor regions, but it succeeds only when adaptive—modified in response to local conditions rather than imposing a rigid, uniform template. Conversely, when governments deploy cooperatives primarily as administrative instruments — measuring success by the number of cooperatives registered rather than by member welfare outcomes — monitoring and evaluation systems become compliance-driven and disconnected from operational realities on the ground [4-6].

Research from South Africa underscores that political interference and structural barriers stemming from top-down governance cultures undermine local agency, ultimately hampering the realization of cooperatives' potential to reduce poverty. Similarly, Zwane and Mzanywa find that internal governance issues, inadequate financial support, limited market access, and inconsistent government engagement consistently hinder cooperative success in rural South Africa. The cooperative literature thus converges on a diagnostic consensus: state initiation is often necessary but insufficient; the critical variable is the quality and design of policy support rather than its mere presence [7,8].

Critical Policy Recipes For Success

Establishing a Robust Legal and Institutional Enabling Environment

A legally coherent and supportive institutional framework is the foundational prerequisite for any cooperative movement's viability. It has been argued that revitalizing village cooperatives requires a robust legal culture grounded in development law theory, with clear regulatory alignment between cooperative law, village law, and national economic policy [9]. The Indonesian case reveals that when cooperative programs lack regulatory clarity — particularly regarding overlap with Village-Owned Enterprises (BUMDes) — institutional friction and resource duplication undermine both structures. International Cooperative Alliance guidelines stress that governments should formally recognize cooperatives and other



Social and Solidarity Economy actors as partners in poverty alleviation rather than administrative instruments, embedding this recognition in law, budgeting, and planning cycles. Effective legal frameworks must also guarantee cooperative autonomy — the freedom to manage assets, determine membership, and set strategic direction free from partisan political interference [10].

Adaptive Government Intervention: Initiating Without Dominating

Government-driven cooperative development must follow a phased transition model: from state-directed initiation in the early phase to state-facilitated autonomy in the maturity phase. It has been identified that successful government intervention in rural China was characterized by adaptive flexibility — willingness to modify intervention approaches based on cooperative feedback loops and local market conditions [2]. It has been highlighted that in Indonesia, cooperatives that successfully developed local economic resilience were those that received government facilitation for market access and capital without surrendering internal governance autonomy [11]. The China “One Village One Product” (OVOP) policy, despite being characterized by a top-down administrative model, achieved rural vitalization by empowering local governance to adapt the policy to indigenous productive capacities [12]. The key policy design implication is that the government should function as an ecosystem architect — providing infrastructure, financing, regulatory support, and market linkages — while devolving operational decision-making to communities [11].

Capacity Building as a Non-Negotiable Investment

Across regions and economic contexts, limited managerial competence among cooperative board members and insufficient human capital among rural members consistently emerge as the most proximate causes of cooperative failure. It has been demonstrated in Vietnam that cooperative management capacity is the single most significant driver of cooperative performance among the five identified factors [13]. Capacity building must encompass not only technical agricultural, and financial management skills but also cooperative governance literacy — members must understand their roles as owners, managers, and beneficiaries simultaneously. The International Cooperative Alliance recommends integrating vocational schools with cooperative colleges to professionalize the movement, with particular emphasis on rural areas, women, and youth [10]. Critically, capacity-building interventions must be followed by substantive post-training monitoring to ensure long-term effectiveness — a step consistently absent in state-sponsored programs [4,1415].

Financial Access, Market Integration, and Value Chain Linkage

Without access to affordable credit and integration into functioning value chains, even well-governed cooperatives remain subsistence-level institutions incapable of transforming member welfare. It has been found that across case studies from Iran, Brazil, and India, cooperatives that genuinely reduced poverty were those operating within enabling financial ecosystems — with access to microfinance, cooperative savings schemes, and government-backed credit guarantee programs [3]. Research from Bosnia and Herzegovina demonstrates that agricultural cooperatives directly contributed to reducing rural poverty by promoting berry farming and improving smallholders’ access to both capital and premium markets. Frontiers’ research on digital transformation of cooperatives confirms that government subsidies at moderate levels effectively promote cooperative digital upgrading without creating dependency — strong subsidy policies, by contrast, increase fiscal burden and compromise sustainability [16]. Value chain integration — linking cooperatives horizontally (peer-to-peer networks) and vertically (to processors, retailers, and exporters) — is identified as essential for converting collective production into collective prosperity [17-20].

Leveraging Social Capital and Participatory Governance

Social capital — trust, reciprocity norms, and community networks — is both a prerequisite and an output of successful cooperative movements. It has been demonstrated empirically that components of social capital significantly determine the functions and performance of rural production cooperatives, recommending that policy interventions explicitly target the enhancement of social capital alongside economic support [21,22]. Van Leuven finds that bridging social capital — links between communities and external resources — is particularly vital for low-prosperity rural communities seeking to access new financial and market opportunities through cooperatives. Indonesia’s experience with BUMDes reinforces this finding: village-owned enterprises that generated measurable social capital formation achieved stronger rural development outcomes. Participatory governance — where members actively shape decisions in general meetings and strategic planning — is the

institutional mechanism through which social capital is converted into cooperative performance. Top-down programs must therefore deliberately engineer participatory spaces rather than treating member participation as an incidental feature [12,23-27].

Digital Transformation as a Policy Accelerator

Digital technologies have emerged as powerful accelerators of cooperative competitiveness and outreach, reducing transaction costs, improving market transparency, and enabling e-governance. Research using evolutionary game theory models shows that when digital technology companies are engaged as partners and cooperative-level digital trust is established, cooperatives opt for digital transformation even in the absence of government subsidies — suggesting that early government investment in digital facilitation creates self-sustaining momentum. The OECD highlights investment in both physical and digital connectivity as a key pillar for building rural resilience, enabling innovative services, economic sustainability, and social cohesion. Specifically for government-driven cooperative programs, e-governance platforms can strengthen accountability mechanisms, reduce corruption risks in fund management, and provide real-time monitoring data, thereby replacing compliance-driven M&E with outcome-oriented oversight [16].

Toward A Unified Policy Framework: The Leacd Model

Synthesizing the evidence, this review proposes a five-pillar LEACD Policy Framework for government-driven rural cooperative success:

- Legal enabling environment with cooperative autonomy guarantees
- Ecosystem architecture by government (finance, markets, infrastructure)
- Adaptive intervention with phased transition to community autonomy
- Capacity building with sustained post-training monitoring
- Digital integration and participatory governance mechanisms

Each pillar is interdependent: legal protection without capacity is hollow; capacity without finance is futile; finance without participatory governance breeds elite capture. The LEACD framework positions government as an initiating catalyst and long-term ecosystem enabler — not a perpetual director — creating conditions under which cooperative movements can achieve genuine, durable prosperity for rural communities [12,28-30].

The interdependence among LEACD pillars is not merely conceptual but empirically grounded. It has been synthesized empirical evidence across multiple sectors and regions and identified three consistent patterns driving cooperative sustainability: first, participatory governance and inter-organizational collaboration are positively associated with resilience and innovation; second, cost discipline combined with end-to-end digital process integration strengthens technical efficiency and financial buffers against external shocks; and third, entrepreneurial orientation — itself amplified by collaboration — drives superior economic performance [31-34]. These three patterns map directly onto the LEACD pillars of participatory governance (D), digital integration (D), and ecosystem architecture (E), confirming that no single pillar can substitute for the others. Similarly, it has been demonstrated through Indonesian village empowerment cases that the government’s most productive role is that of a facilitator and orchestrator of the ecosystem, not merely a program provider — a role that demands simultaneous engagement across legal, financial, capacity, and technological dimensions rather than sequenced, siloed interventions [35]. The IJCRT cooperative transformation study further reinforces this by proposing targeted policy reforms spanning governance auditing, digital infrastructure subsidy, cooperative credit guarantee funds, and national cooperative training institutes — all of which align structurally with the LEACD pillars — as a unified package rather than standalone measures [36].

Critically, the LEACD framework also embeds a temporal logic of phased state withdrawal, distinguishing it from conventional top-down program designs. In the initiation phase, the government plays a dominant role — enacting legal frameworks, seeding capital, and establishing institutional structures — but must deliberately plan its own progressive retreat from operational control. It has been documented how village-owned enterprises in Sikka Regency, Indonesia, that achieved agricultural sustainability were those in which local governance units progressively assumed managerial ownership after an initial period of intensive government facilitation, with the state transitioning from director to monitor [12,37]. This mirrors findings from the agile governance literature, in which it has been demonstrated that flexible, adaptive governance — characterized by responsiveness, feedback incorporation, and decentralized decision-making — yields superior, more durable rural development



outcomes than rigid, centrally administered programs [12,38]. The LEACD framework thus operationalizes what is called a “community/social capital” approach, in which cooperatives simultaneously and progressively enhance economic, social, and environmental assets within rural systems — with government serving as the architect of conditions that make this self-reinforcing accumulation possible, not the perpetual manager of its outcomes [39].

Conclusion

Government-driven rural cooperative movements can succeed in generating village prosperity, but only when policy design explicitly addresses the paradox at their core: state initiation must ultimately cultivate community ownership. The critical policy recipes identified in this review — legal empowerment, adaptive and phased government roles, human capital investment, financial and market integration, social capital cultivation, and digital facilitation — are not sequential steps but simultaneous pillars of a coherent cooperative ecosystem. Future research should focus on longitudinal assessments of state-initiated cooperative programs across different governance contexts, and on developing indicators that capture the quality of cooperative autonomy rather than mere registration numbers. The global urgency of rural poverty reduction, rural-urban inequality, and inclusive sustainable development makes getting this policy architecture right a matter of both scholarly and practical priority.

When the critical aspects of social capital empowerment, people’s ownership, and participatory governance are neglected, top-down cooperative movements are condemned to a predictable institutional fate: structural hollowness. Cooperatives launched under state mandate but deprived of genuine member ownership devolve into administrative shells — formally registered, numerically impressive, yet economically inert and socially disconnected. It has been documented that cooperatives in rural South Africa, lacking participatory governance mechanisms, were captured by local elites or politically connected individuals, diverting collective resources from ordinary members and entrenching, rather than reducing, inequalities. It has been similarly found that in Chinese rural cooperatives where state intervention crowded out community agency, members developed passive, beneficiary mentalities rather than entrepreneurial ownership orientations — a dependency trap that persisted long after state subsidies were withdrawn. Without social capital as its connective tissue, a cooperative ceases to be a cooperative in any meaningful sense; it becomes a government project wearing a cooperative’s name, and like most government projects without community roots, it withers once political attention and public funding move on. History’s graveyard of failed state-sponsored cooperative movements — from Soviet collective farms to post-independence Africa’s parastatal cooperatives — stands as sobering testimony that no volume of top-down resources can substitute for the bottom-up bonds of trust, reciprocity, and shared purpose that make rural cooperatives genuinely transformative institutions.

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