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06397



Distr.  
LIMITED

ID/WG. 210/2  
3 June 1975

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

Meeting on Self-Help Programmes for  
Small-scale Industries in Developing Countries  
Vienna, Austria, 10 - 14 November 1975

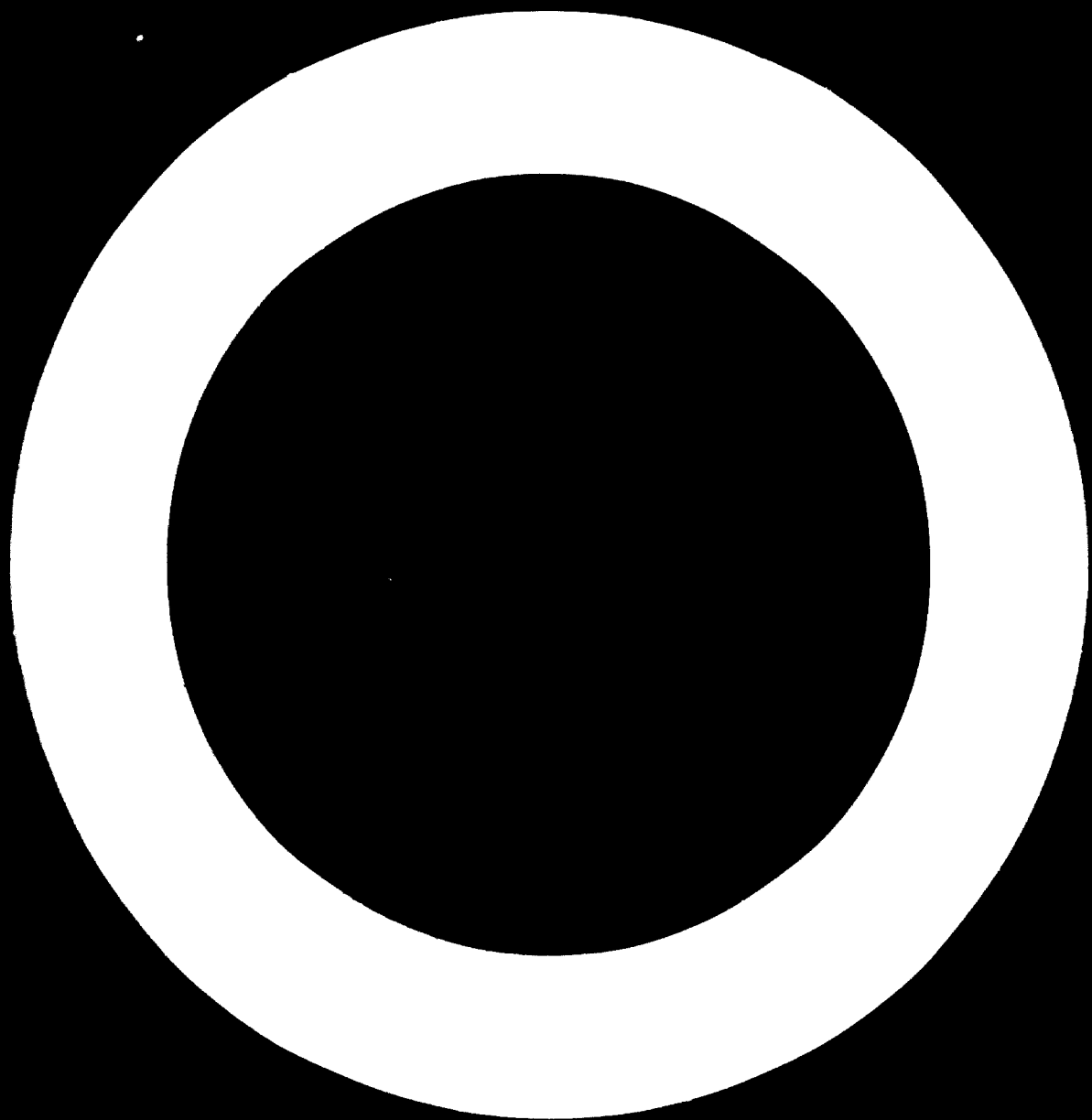
INDUSTRIAL CO-OPERATIVES  
IN DEVELOPING COUNTRIES <sup>1/</sup>

by

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<sup>1/</sup> The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO. This document has been reproduced without formal editing.



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## Introduction

This paper is intended as a general survey of the present status and the prospects of industrial co-operatives in the developing countries.

It is based on the information currently available to the International Co-operative Alliance (ICA), including particularly studies which have been undertaken by UNIDO in collaboration with ICA and its Workers Productive and Artisanal Committee.

The paper is organized in two parts. Part One, Data on Industrial Co-operatives in Developing Countries, covers the definition of industrial co-operatives, types of products, types of organisation and their geographic distribution. Part Two, The Factors which Influence Industrial Co-operatives in Developing Countries, examines the reasons for the concentration of industrial co-operatives on certain types of products and their particular contribution to the development process. It then attempts to isolate the factors which have accounted for the noticeably more rapid progress of industrial co-operatives in particular countries and the relative contributions to these efforts by the co-operatives themselves, by their governments, by governments and non-governmental organisations in developed countries and by United Nations agencies.

## I. DEFINITION

Co-operation is a flexible organizational instrument which can be readily adapted to a wide variety of needs and situations. This versatility makes it difficult to develop any consistent typology which is applicable anywhere in the world.

The definitional problem is particularly acute in the case of "industrial co-operatives", a term which is often used loosely. As a starting point it is convenient to adopt the definition used by UNIDO, namely "any industrial enterprise, large or small, which is legally registered as a co-operative, or is wholly controlled by an organization so registered." <sup>1/</sup>

It seems necessary, however, to add precision to this definition by emphasizing that in this paper the term "industrial" will be interpreted as relating to production in the sense of processing and manufacture. Thus no attempt will be made to cover co-operatives which deal primarily with farming, inputs or supply, credit, insurance, marketing, collective ownership of housing or retail distribution. At the same time it must be recognized that co-operative processing and manufacture are frequently linked organizationally with some or all of these activities, particularly in so-called "multipurpose" co-operatives. This linkage is sometimes an important factor in determining the efficiency of industrial co-operatives, and must be taken into account in any prognosis of their potential.

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<sup>1/</sup> The Role of Co-operatives in the Industrial Development of Individual Countries, UNIDO ID/B/88, 5 February 1971.

## II. PRODUCTS

Although it is not practicable to make a comprehensive listing of all the products with which industrial co-operatives in developing countries have been concerned, the following is an indication of the major kinds of production.

### Food Processing

Dairying  
Fruits and Vegetables (canning, juices, dehydration, vegetable oils)  
Wines  
Meat Processing  
Fish Processing,  
Honey  
Coffee Processing  
Tea Processing  
Coconut Processing  
Rice and Maize Milling  
Groundnut Decorticating  
Sugar Refining  
Spices

### Processing of Raw Materials

Cotton  
Jute  
Tobacco  
Soap  
Rubber

### Handicrafts

Ceramics  
Leather Work  
Wood Carvings  
Weaving, including carpets, basketry and mats  
Jewelry  
Metal Work (gold, silver, copper, brass)

Light Industry

Shoes  
Furniture and other Wood Products  
Textiles  
Paper and Printing  
Household Utensils  
Agricultural Implements  
Construction Material: (bricks, cement, etc.)  
Umbrellas  
Bicycles  
Cutlery  
Chemicals (dyes, pharmaceutical products)  
Rural Electricity

III. TYPES OF ORGANIZATION

There are two main types of industrial co-operatives: a) joint enterprise co-operatives and b) common facility co-operatives. In the former, members merge their individual productive operations in one unit, ceasing to function as separate enterprises. In the latter, members maintain the separate identity of their major operations but the society provides one or more specific facilities or services for their joint use.

A. Joint enterprise co-operatives

In joint enterprise co-operatives, sharing of surplus by members is in terms of labour input, and transactions are on the society's account and risk. The society has responsibility for production, supplies, transport, marketing and supervision. Production may take place in members' own homes, or in joint workshops. However, the co-operative is owner of the materials in process and the members determine collectively where to buy, what to produce and how and where to sell.

The participation of members in workers' productive societies is usually in the form of share capital, deposits and labour. A minimum number of shares is bought by the members upon entering a society and these bear a limited interest. Deposits are a voluntary contribution by members to provide working capital for the co-operative in addition to



shares, reserves and loans. Allowances are often made for differences in the type and quality of labour contributed by the members. Sometimes this is measured in terms of the quantity of a member's production of a given quality. The methods of doing business in such societies may however differ to some extent and this largely determines the system of payment to members.

In the developing countries, workers' productive societies frequently take the form of cottage or household industry. Many of these countries attach high priority to such industries because they make use of local materials and local skills; they entail low overhead costs and little capital equipment, and they utilize family labour including women, students and part-time farmers. The co-operative supplies workers, in their own homes or in a common workshop, with tools, raw materials and equipment, patterns and designs, technical advice, training, finishing and marketing services: and pays the workers by piece plus a bonus from profits.

Cottage industry may take the form of processing of agricultural raw materials; most notably spinning and weaving, as in India, Pakistan, Sri Lanka, Burma and Thailand. Other products include shoes and other leather goods, woodwork, baskets and mats from palms, handmade bricks and tiles and even simple machine parts.

Cottage industry is also important for the production of handicrafts. It is generally recognized that co-operation is the most effective way of organizing handicrafts, because it enables individual craftsmen with meagre resources and heavy indebtedness to pool their resources, rationalize and modernize their production methods, take advantage of economies of scale and market more efficiently.

Artisanal co-operatives whose members are industrial craftsmen producing articles in which artistic skills and appearance of the finished product are important are not usually of the joint enterprise type. However, if the final product is a more or less standard article composed of several components which can be produced in individual workshops and assembled centrally, a joint enterprise co-operative is often the best solution for overcoming the handicaps created by the smallness of each unit. Similarly, a product which needs a standard finish may be well suited for joint enterprises. Members work in their homes or workshops to produce parts for the co-operative which provides the raw material. These are then delivered to the co-operative which processes them further and assembles them in a central workshop and puts the finished product on the market.

In a number of countries the workers' productive form of co-operation has been adapted to meet the employment needs of workers. These have usually been seasonal or migratory workers on farms, roads, quarries, docks, railways, public works, forestry, maintenance services or building. Their problems - substandard wages and working conditions and lack of continuity in employment - have stemmed largely from exploitation by private contractors and from absence of an organized labour exchange.

The co-operative solution has taken the form of labour contracting societies designed to enable members to organize and allocate job opportunities, to make their own collective contracts with employers, thus bypassing private contractors, and to choose their own leaders, distribute wages and impose their own work discipline.

Their members are manual workers, and they work as a team. Also they are mobile and do not depend on fixed equipment or a single place of work. The co-operative chooses its own leaders, negotiates a contract with the prospective employer, and makes itself responsible for the distribution of wages as well as for the discipline of the gang. Little capital is required and group loyalty is the main requirement for success.

Labour contracting co-operatives are found principally in occupations in which labour is normally organized in teams. In Hungary members were usually workers on roads or railways. In Romania co-operative contract workers in timber felling have negotiated contracts directly with forest owners, usually the State, for exploitation of a stretch of wooded land which they proceeded to convert into saleable timber. There are similar co-operatives in Southern India, Sri Lanka and to some extent in other Asian countries and in Guyana, Israel and Latin America.

In India experiments are being made with labour contracting societies which go far beyond the objective of simply providing more steady employment; indeed, they envisage such societies as effective instruments of economic development. These experiments are directed towards landless labourers in rural areas. In addition to steady employment opportunities, the objectives include improving of working conditions and enlargement of job satisfaction, greater geographic and occupational mobility of the work force, generation of savings by workers, stimulation of self-government by workers themselves, diversification of job opportunities, training for new skills and increased productivity of the labour force.

### B. Common facility co-operatives

Common facility co-operatives perform a service or provide a facility to their members in respect of one or more specific activities, leaving the members free to conduct the other operations individually. The facility provided may be services (credit, purchase of supplies, marketing, testing, research, workshop layout, designs, advice - legal, economic or financial, - and training); joint use of machinery, storage, transport; or specialized production operations in common workshops for preliminary processing, finishing and assembly operations or repairs and maintenance.

This form is more widespread in developing countries than joint enterprise co-operatives. Sharing of surplus is proportionate to the use of the joint facilities, and all transactions other than the particular facility involved are at the account and risk of the individual members. In secondary common facility co-operatives, members are primary societies, frequently of the joint enterprise type.

Processing operations are often undertaken by co-operative marketing societies. Such societies may themselves enter the field of processing simply because the product is not saleable to the final consumer in its unfinished state. Accordingly they take the foodstuffs and raw materials produced by the farmer or fisherman and process them one or two more stages nearer to the form required by the consumer. These processes may be cotton ginning, the hulling and conditioning of coffee, the production and refining of sugar, oil nut crushing, pyrethum drying, or any of a number of other productive procedures. Each of these processes is run on a margin of profit which is later returned to the grower in the form of a bonus on the produce delivered.

Alternatively the processing may be done by a purchasing or supply co-operative for the purpose of making goods available for consumption by its members. Examples are the polishing of rice, milling of flour, and production of soybean paste and soy sauce. The processing is financed either by processing fees on materials brought in by members, or by having the supply co-operative purchase the materials outright, process them and sell them to members.

As noted above, many artisanal or handicraft co-operatives are service co-operatives rather than joint enterprise societies. The individual producers generally possess their own workshops, tools and customers and sometimes a fair amount of capital, and they organize their own production. But they associate with other co-operative producers for purposes of a specific function such as joint purchasing, joint marketing or the carrying out of a particular auxiliary operation in a joint workshop: for example, kilns for brassware, bricks and tiles and pottery; finishing of silverware, handmade paper, textiles or casting products; heat treatment for metal products; or special machinery for carpentry.

Clearly there is no sharp line between joint enterprise and common facility co-operatives. Common facility co-operatives often begin to assume the characteristics of joint enterprise co-operatives as they take on more and more joint operations. In the developing countries "independent" craftsmen are often in the same position that wage earners were in during the 19th century in industrialized nations; that is, they depend on merchants and money-lenders for machines, guidance on production methods, supplies of raw materials and marketing of goods. To escape this situation, and with the technical and financial support of governments, they often tend eventually to associate together in craft co-operatives of the joint enterprise type which carry on all of the basic industrial tasks - supplying raw materials, component parts, tools, machinery, marketing, organization of production, assembly lines, finishing operations, accounting and financial management. In such cases craft co-operatives can no longer be considered as mere auxiliary bodies providing independent craftsmen with collective services, but rather as true joint enterprise co-operatives.

For the sake of completeness it should be mentioned that in many industrialized countries a good deal of production is carried on in factories owned by consumer co-operatives. Their purpose is to make available to consumers better products at lower prices. Some are wholly-owned subsidiaries with their own capital structure and their own boards of management. Some are jointly owned by the wholesale and a group of retail societies. Some are jointly owned by the wholesale and some other type of co-operative such as agricultural or fishery societies. Some are owned or operated by the primary

societies themselves or by local societies of different types. To date, however, this type of co-operative production is rare in developing countries, basically because consumer co-operation is not well established in most of these areas, and even where it exists it seldom has reached a stage of development involving installation of productive facilities.

In summary it must be emphasized that there are various types of "industrial co-operatives"; and the lines between them are not always clear. Also there is a tendency for one form to evolve into another.

IV. GEOGRAPHICAL DISTRIBUTION OF INDUSTRIAL CO-OPERATIVES

Industrial co-operatives of one kind or another can be found in practically all developing countries, but there are a few areas in which they have made relatively rapid progress. These include Argentina, Chile, Mexico, India, Bangladesh, Pakistan, Indonesia, Morocco, Tunisia and the Arab Republic of Egypt.

No comprehensive listing of industrial co-operatives is available, and the information in the following table has had to be pieced together from a wide variety of sources in the ICA library and files; these of course include information from ILO, UNIDO and other organizations. It must be stressed that the table cannot be regarded as authoritative in the sense of being either complete or up to date; and certainly it does not provide a basis for measuring the relative degree of penetration of various countries by industrial co-operatives.

<u>Country</u>	<u>Production Facilities</u>	<u>Processing Facilities</u>
<b>ALGERIA</b>	Handicrafts Weaving Iron work	Fruits Sugar
<b>ARGENTINA</b>	Printing Textiles Construction materials Electro-technical Metallurgy Wood work Glass Electric power Machinery repair	Dairying Cotton Vegetable oils Tea Flour mills Fruits and vegetables
<b>BANGLADESH</b>	Textiles Jute products Agricultural implements Power Looms Dyes and chemicals Metallurgy Shoes Printing Coir products	Rice Dairying Salt
<b>BOLIVIA</b>	Handicrafts Minerals Printing	Coffee Sugar Dairying

<u>Country</u>	<u>Production Facilities</u>	<u>Processing Facilities</u>
BOTSWANA	Handicrafts Rope Textiles	Edible oils
BRAZIL		Wine Coffee
BURMA	Handicrafts Weaving Tailoring Machinery repairs Cigars Transport Timber	
BURUNDI	Handicrafts	
CAMEROON	Handicrafts	Dairying Palm oil Cocoa
CHILE	Printing Electro-mechanical Furniture Construction materials	Dairying Wine Fish Meat
COLOMBIA	Handicrafts Construction Textiles Footwear Furniture Printing Transport	Coffee Meat Dairying
COSTA RICA	Aeroplane servicing	Coffee Sugar Dairying
DAHOMEY	Handicrafts Construction	Palm oil
DOMINICAN REPUBLIC	Handicrafts Construction	Tobacco Dairying
ECUADOR	Handicrafts Bricks Mining	
EGYPT (ARAB REP. OF)	Textiles Furniture Wood work Boots Leather work Glass Chemicals	Dairying Fruits Petroleum Cotton

<u>Country</u>	<u>Production Facilities</u>	<u>Processing Facilities</u>
EL SALVADOR	Handicrafts Shoes Clothing Furniture Pottery Machines	
ETHIOPIA	Weaving	Coffee
GHANA	Construction Distillery Transport	
GUATEMALA	Handicrafts	
GUINEA	Machinery Iron work Dyeing Jewellery Tailoring Embroidery Shoes Bakery products	Rice
GUYANA	Handicrafts Construction Machinery	Rice Cassava Soda
HAITI	Handicrafts	
HONDURAS	Handicrafts	
INDIA	Textiles Paper Sport goods Matches Pharmaceuticals Cutlery Bamboo and cane products Coir products Leather goods Brassware Construction materials Chemicals Fertilisers Electro-technical Hardware Agricultural implements Furniture Motor and bicycle parts Gold and silver and brass products Lace shawls, embroidery Pottery	Rice Solvent extraction Oil seeds Cotton Fruits and Vegetables Sugar Coffee Tea Coconut Pulses Areca nuts Cashew nuts Cardamoms Dairying Fish Salt



<u>Country</u>	<u>Production Facilities</u>	<u>Processing Facilities</u>
INDONESIA	Light engineering Wood work Synthetic fibres Clothing Textiles Shipbuilding Iron foundries Leather work Umbrellas Tin	Rubber Rice Dairying Paddy Copra Fish Tobacco Coffee Spices Sugar Meat
IRAQ		Grains Dates Dairying
IRAN	Carpets and matting Pesticides	Fruits Vegetables Paddy Honey
JAMAICA	Banana boxes	Coffee Cocoa
JORDAN	Handicrafts Shoes Tailoring Printin Machinery Construction	Olive oil Other foods
KENYA	Pottery Handicrafts Timber products construction	Milk Coffee Tea Cotton Tobacco Dairying Sugar Cereals Meat Leather
KOREA, Rep. of	Handicrafts Weaving Footwear Paper products Straw goods Farm implements Bricks Polyethylene Pesticides Fertilisers Mining Motor vehicles Bicycles Shipbuilding	Dairying Fruits Vegetables Rice

<u>Country</u>	<u>Production Facilities</u>	<u>Processing Facilities</u>
LIBYA	Handicrafts	
MADAGASCAR	Handicrafts	
MALAYSIA	Silverware Brassware Clothing Weaving Souvenirs	Rice Rubber Coffee Pineapples Copra Oil palm Pepper Fish
MALI	Handicrafts Construction Textiles Tailoring Carpentry Transport	Rice Coffee Dairying
MAURITANIA	Handicrafts	
MAURITIUS	Printing Transport Leatherwork	Tea Fruit
MEXICO	Printing Construction materials Clothing Footwear Handicrafts Leather work Textiles	Fish Sugar
MOROCCO	Leather work Wood work Pottery Other handicrafts	Rice Cotton Rubber
NEPAL	Handicrafts Weaving Bricks Woodwork Furniture Metal work	Dairying Oil Rice
NIGERIA	Wood carving Handicrafts Pharmaceuticals Printing Weaving Bakery goods	Cocoa Palm products

<u>Country</u>	<u>Production Facilities</u>	<u>Processing Facilities</u>
PAKISTAN	Handicrafts Handlooms Bicycles Agricultural implements Textiles Leather Furniture Sports goods Metallurgy	Tobacco Fruits Honey Sugar Rice Husking Dairy products Fish Petroleum products
PERU	Handicrafts Machinery Transport	Sugar Meat
PHILIPPINES	Textiles Hats Shoes Woodwork  Electronics and appliances Handicrafts	Rice Fruits and vegetables Foodstuffs Tobacco Sugar
RWANDA	Handicrafts	
SAUDI ARABIA	Bakery products Machinery repairs	
SENEGAL	Handicrafts Construction	
SIERRA LEONE	Handicrafts	
SRI LANKA	Soap Carpets Handloom textiles Polyethylene Plastic goods Bricks and tiles Screws and wires Toys Utensils Matches Powerloom textiles Pottery Handicraft Coir products Distillery products Furniture Coconut by-products Builders' co-operatives	Tea Rubber Rice Tobacco Dairying Coconut Fish Boche-de-mer
SUDAN	Handicrafts Transport Bakery products	Flour Meat Dairying Bible oils

<u>Country</u>	<u>Production Facilities</u>	<u>Processing Facilities</u>
TANZANIA (UNITED REP. OF)	Handicrafts Construction Tailoring	Tea Cotton Dairying Tobacco Coffee Oil seed Rice Cashew nuts Sisal Maize
THAILAND	Umbrellas Basketry Cutlery Silk products Other handicrafts	Rubber Paddy rice Tobacco Salt Fish Sugar
TUNISIA	Jewellery Embroideries Pottery Leather work, shoes Metal work Wool work, furniture Carpets Textiles, clothing	Wine
UGANDA	Handicrafts Construction	Cotton Coffee Tobacco Tea Dairying Maize Ground nuts Vegetables Hides and skins
UPPER VOLTA	Handicrafts	
URUGUAY	Handicrafts	
VENEZUELA	Handicrafts Shoes Furniture Rope	
VIET-NAM (REP. OF)	Handicrafts (Weaving, Pottery etc.)	
ZAIRE	Handicrafts Construction	Coffee Cotton Palm oil Rubber
GAMBIA	Handicrafts Construction Transport, Mining	Cotton Coffee Fruits

PART TWO:  
THE FACTORS WHICH INFLUENCE INDUSTRIAL CO-OPERATIVES  
IN DEVELOPING COUNTRIES

V. WHY THESE PARTICULAR PRODUCTS?

It is no accident that industrial co-operatives in developing countries have tended to concentrate on the processing of local materials and agricultural products, handicrafts, simple farm tools and household utensils and building materials. This follows from the proposition that effective development efforts must build upon locally available resources.

Obviously there are major differences in resource availability in Africa, Asia in Latin America and in the individual countries which they comprise. These areas embrace the entire economic spectrum from bushmen and hunting and gathering groups through pastoralists who live from livestock, settled subsistence farmers and farmers producing a surplus for the market, to large-scale commercialized agricultural and plantation enterprises.

Even so there are certain basic features common to these areas which are relevant to the process of industrialization. One is the predominance of primary production. By far the greater part of the people - in many cases as much as 90 percent of the population and up to 80 percent of the labour force - derive their incomes from rural activities.

Another is the high level of unemployment and underemployment in both rural and urban areas. In most cases this problem is aggravated by a very high rate of population growth.

This underutilization of resources is at the same time a cause and a result of shortage of capital. Contributory factors are lack of significant surpluses of output, low income, low savings, heavy expenditures for debts and for ceremonial occasions, inadequate credit institutions and reluctance to invest in rural industry on the part of those who do have money such as landowners, money lenders and merchants.

Equally serious as an obstacle to industrialization is the scarcity of industrial skills. Standards of elementary education are low. The "market economy" is relatively new and economically "rational" attitudes have had little opportunity to evolve. There are few facilities for managerial, technical and professional training, and the heavy hand of tradition exercises a conservative influence on economic and social organizations and attitudes.

Finally there are inadequate marketing and commercial facilities. Many of the underdeveloped countries are still in the early stages of transition from a natural subsistence barter economy to cash and market economies. Some parts of Latin America and the Middle East are still in the last stages of that transition with only occasional surpluses for market. In West and East Africa and some Asian countries the transition started only at the beginning of the century.

Industrialization embraces the entire process by which a predominantly agricultural society develops into a diversified economy based on manufacturing and commercial as well as agricultural activities. This clearly involves an enormous transformation with fundamental changes in economic and social structure. It follows that the process of industrialization must be gradual. Certainly the process can be accelerated, and the transitional stages considerably telescoped, through appropriate organization of development machinery, vocational training and technical assistance. But still the process must build on what exists.

This means, in most underdeveloped countries, that efforts to increase output and incomes must initially concentrate primarily on "agro-industry", that is, on raising the productivity of agriculture and developing industries based on agricultural, fishery and forestry products. This, in turn, implies an increase in processing facilities and in capacity for light industry which serves agricultural development needs, for example, small tools, light farm equipment and machinery, diesel pumps, fencing, simple fertilisers, pesticides and insecticides, and containers. At each step the growth of industry must support and be derived from the growth of agriculture and of the rural sector. The problem is one of timing and of balance.

Thus the process is likely to be unspectacular. It must utilize and develop local materials, local manpower, local skills and appropriate technologies rather than trying to transform the economic situation overnight by transplanting large-scale organizations and complex techniques. The changes that can be accommodated at any one time are generally small in relation to what has gone before. But a great deal can be accomplished by a large number of small changes over wide areas, each taking advantage of local opportunities and resource availabilities, and each in turn making further growth possible. A fully developed economy can emerge only towards the end of a long process of integration between evolving agriculture and evolving industry and urbanization in what are now predominantly rural economies.

The major potential resource for industrialization in the less developed countries is manpower. But manpower in these countries at present consists largely of untrained, illiterate, peasants tied to custom-bound inefficient ways of living and producing. Their adaptation to new productive methods, new institutional forms, new values and new jobs must necessarily involve a slow process of "acculturation". Workers will have to acquire new skills and become accustomed to new techniques, tools, products, markets and ways of organizing work. They will need to adapt to regular work hours and to job discipline, to accept closer supervision and direction of an impersonal rather than a paternalistic kind, and to become output and quality conscious. And they must make the shift from independent productive activities to division of labour, job specifications and interdependence of industrial roles. Finally they must learn to live in an aspiring rather than a fatalistic society.

These are enormous changes and it should not be assumed that they will be readily accepted. Hence the crucial factor is likely to be motivation. This in turn puts the focus on involvement, participation and self-help. People will have to be convinced through demonstration that it is possible for them to better their lot.

## VI. WHY CO-OPERATIVES?

### A. Small-scale industry in developing countries

In many of the developing countries, governments deliberately encourage small-scale industry - not for sentimental reasons but because they consider small producers as a major foundation of the drive for industrialization. Government support for small business takes the form of financial aid, technical assistance, trade concessions and protection against ruthless competition from large-scale industry and provision of the essential infrastructure of transport, power and communications facilities.

There are several reasons why small-scale enterprise is considered to be the major springboard for the initial stages of industrialization in the less developed countries. One is the fact that most of the labour force in manufacturing in these countries is in small industry. Workers in these enterprises have acquired valuable skills and familiarity with those technologies which they can afford. They are meeting local consumer demands for basic processed

foodstuffs, clothing, household utensils, tools and equipment; they have established close relations with their distributors and customers; and they are experiencing a gradual transition from the individualistic pattern of peasant life, where the rhythm is conditioned by the seasons, to factory life where discipline and regularity are essential.

Another reason for encouraging small-scale enterprise is that there are many situations in developing countries in which smaller productive units have positive advantages. The term "economies of scale" is a relative concept. It is most commonly used as a kind of shorthand expression for the advantages of large-scale operation. But such advantages are forthcoming only in particular contexts.

The most economic size of production unit depends upon a combination of several factors including size of market, relative availabilities of labour and of capital, proximity of raw materials, availability of transport, communications, marketing facilities and credit institutions, type of production technique and degree of divisibility of plant.

Some types of modern machinery require large-scale productive units if they are to be used economically. But large-scale capital-intensive production is not efficient if markets are small, scattered, highly seasonal or fragmented; if distribution channels are not well organized; if workers are not used to factory discipline; if management does not know the necessary managerial techniques, or even if aware of them cannot implement them because they conflict with accepted customs, beliefs, systems of authority, etc. Also it is necessary to have service engineers who can put the complicated machinery back into action if it breaks down. Scarce capital is wasted if it is incorporated in such forms as to be unusable.

In most developing countries at present, and probably for many decades to come, the most common situation is one which gives rise to "economies of small-scale", that is in which smaller productive units have certain advantages.

Sometimes the advantage is locational. This may be in terms of saving transport costs for heavy, bulky, fragile or perishable items based on local raw materials that are widely dispersed - as for instance, bricks, carpentry and other products of saw mills, certain processed goods and dairy products.



Or it may relate to the importance of proximity to the customer and attention to individual requirements as with tailoring, shoe making, job printing and maintenance and repairs. Small local firms are best adapted to take care of domestic consumer needs that cannot be met by mass production, or specialized articles for which the total demand is small such as leather goods or thermos flasks.

Again, the advantage of the smaller unit may be in terms of its technological flexibility which makes it particularly suitable for operations that are specialized and separable. Thus small firms can sometimes take advantage of the opportunity to produce certain parts or operations of an industrial process where the market is too small for large firms, or where specialized plant, equipment or skills are required; for example, components for cars or bicycles, or such machine shop products as pistons, valves and gauges.

Overhead costs are lower for a small firm because of the simpler and cheaper equipment, lower cost of buildings, and flexibility for taking decisions more quickly. And they can minimize administrative costs and economize on scarce managerial skills by operating under the personal supervision of the manager and dispensing with sophisticated control procedures and a complex hierarchy of authority. Moreover the technological advantages of small size are being steadily increased by the spread of electricity and electrically-driven small tools and cheaper power.

Smaller firms can make better use of available labour in most developing countries. This is because manpower is abundant, indeed often redundant, and small firms tend to use relatively labour-intensive techniques. Thus the capital invested generates more employment, at least in the short run, than the same amount invested in large-scale production. In other words, small-scale production uses labour and capital in proportions in which these two factors of production are available.

Moreover small firms may have a labour advantage in that they can recruit locally and they experience lower turnover. Also the fact that workers are members of small, intimate community may make for better teamwork. And they can make use of existing traditional skills for crafts and precision work and artistic and luxury goods with a high content of manual work not easily mechanized,

for example carpet weaving, shell or ivory carving, fine embroidery, lacquerware and gold and silver work. Small firms are also in a better position than large-scale mechanized factories to give employment to groups of workers in need of part-time work, including farmers during slack seasons, landless labourers, students and housewives.

#### B. Co-operatives and small-scale industry

These observations have a direct bearing on the role of industrial co-operatives in the developing countries. In view of the evident need for a gradual, diffuse, evolutionary approach based on agro-industry and handicrafts and light manufactures, it is clear that the industrialization process must build upon the initiative of numerous small-scale enterprises. This means that over large sectors of industry for a fairly long initial period the most appropriate productive units will be relatively small.

But it is equally clear that industrial initiative should not be allowed to be stifled by the disadvantages of smallness or by the ruthless competition of large-scale operators. And this is where co-operatives have an important role to play.

The function of productive co-operatives is to pool resources while retaining individual initiative and drive. More specifically, industrial co-operatives, whether "joint enterprise" or "common facility" in form, make it possible for small-scale producers to associate together in order to secure the advantages of scale with respect to certain operations for which large units, specialization and division of labour are more economic. These may be advantages in purchasing, processing, marketing, technical services or finance. In many cases, but gradually over a period of time, this kind of association results in relatively large scale of operation.

Moreover this kind of resource pooling through co-operation can occur at several levels commensurate with the particular industrial needs of each level. Through the flexible structure of primary and secondary societies, co-operatives can offer a series of industrial service centres throughout an area. These can range from small centres at the village level appropriate to the simple needs of small farmers and rural artisans; through market town centres providing elementary processing, financial, and technical support and vocational and managerial training to farmers; to handicrafts and light industries; and then through district and regional centres up to a national federation - each stage offering a more elaborate and sophisticated array of industrial services.

Even small-scale industry must be efficient, however. Economic development requires high industrial productivity, and this is equally true whether that industry is urban or rural, and whether it is large-scale or small-scale. To promote economic development, industrial co-operatives must utilize the most rational and modern techniques appropriate to that development.

The stress is on "appropriate". It has already been noted that economic efficiency is defined in terms of output per factor mix, and the most appropriate factor mix depends on relative availabilities of various factors of production. In the developing countries the most usual situation is that labour is plentiful and cheap, and capital is scarce and expensive. Thus the best "factor mix" will economize on the use of capital. And the most "appropriate" technology will be that which can be applied locally with relatively unskilled labour and which processes locally available materials. This will save on capital and on foreign exchange, will absorb local unemployment, and will increase local incomes.

There is a high degree of technological flexibility in industries using agricultural raw materials. Industrial co-operatives in developing countries are generally geared to the use of relatively simple productive techniques which provide a useful foundation for gradual development of more complex industrial skills. Subsequently a greater degree of mechanization can be introduced gradually for certain stages of manufacture. For example, in food processing many functions can initially be done by hand labour such as weighing, cleaning, trimming, grading, sorting, cutting, slicing and curing.

At the same time the scope of appropriate technology in less advanced countries is constantly being broadened by the development of smaller-scale equipment for processing which makes possible efficient production on a smaller scale: for example, light semi-portable sawmills, small oil expellers, hydraulic presses, sisal decorticators and equipment for coir manufacture. Similarly the increased availability of electricity makes possible the development and diffusion of light industries.

C. Co-operatives and large-scale industry

Co-operatives, like other enterprises in rural areas of the developing countries, normally start on a small scale, but they do not necessarily remain small. There is nothing inherent in the principles of co-operation which acts as a brake on expansion in the size of productive units; and indeed the pooling of resources through concentration of co-operative services in secondary co-operative organizations can be a powerful stimulus to such expansion. The following examples of large-scale co-operative enterprises are but a few of the many which can be found in developing countries.

One of the most interesting examples of large-scale industrial production with advanced technology on a co-operative basis is to be found in the two most northerly Basque provinces in Spain, centres on the town of Mondragon. Thirty years ago a technical school was founded there with 20 pupils; today there are 2000. In 1956, five of the graduates of the school decided to form an industrial co-operative society to manufacture first stoves and later refrigerators, washing machines, cookers and other domestic appliances. The society, called ULGOR, now employs more than 2,500 worker-members and the whole group has annual sales of over 10,000 million pesetas or £65 million. Sales have been increasing at a rate of more than 30 percent a year since 1966.

Since 1956 a further 46 industrial co-operatives have been established in the two provinces as well as several consumer and agricultural co-operatives and a co-operative fishermen's society. The industrial co-operatives employ about 10,000 people and the consumer co-operatives have about 10,000 members, many of them employees of the industrial co-operatives, while the agricultural co-operatives have well over 1,000 members and the fishing co-operative over 300. All these co-operatives are linked by a savings and investment bank, the Caja Laboral Popular, based at Mondragon but with 54 branches in the Basque provinces (end of 1971).

Whether measured in numbers employed or in sales, the industrial co-operatives account for over 90 percent of the activities of the Mondragon co-operatives. They are the largest producers of refrigerators in Spain and among the largest producers of machine tools. About ten percent of their output is in construction of various kinds. They have foundries and produce a wide range of industrial products and maintain a strict system of quality control which has won them a high reputation.

In Argentina, SANCOR Mantega Co-operativas Unidas Limitadas comprises 410 co-operatives uniting some 18,000 dairies. These co-operatives market the milk in the internal market, separating the casein which they send to SANCOR's nine industrial plants for producing butter, cheeses, powdered milk and other milk derivatives. SANCOR has its own administrative organization, accountancy and sales departments, a large fleet of refrigerator trucks and sales offices in London and New York. It employs 3,500 workers.

Also in Argentina, Cooperative Industrial Textil Argentina (CITA) employs 450 worker-members in its mill for production of cotton fabrics and rayon, nylon or polyamidic fibres. Its modern plant for dyeing, preparing, finishing and selling prints is one of the best in South America. Similarly, Industrias Metalurgicas Plasticas Argentinas Cooperativas (IMPA) employs 370 worker-members, and is one of the three most important aluminium producing industries in the country.

In India, the Kaira District Cooperative Milk Producers Union Ltd., Anand (Gujarat) started in 1946 as a milk collection organization and has since developed into a large manufacturing complex comprising Asia's largest and most up-to-date milk pasteurisation plant as well as facilities for canned butter, ghee, milk powder, sweetened condensed milk, baby food and cheese. It handles 170,000 gallons of milk a day. It also operates a factory for feed mixing and facilities for marketing lime, extraction of lime juice and of oils from seeds and rinds, a fruit canning plant, and use of lime pulp as cattle feed. Consideration is being given to the manufacture of banana dried milk. The Union has had a major impact on village life, providing a range of services which have stimulated and made possible many phases of economic, social and educational development. These include artificial insemination of buffaloes, veterinary services, introduction of diesel engines and pumps to villages, modern milk collection centres in villages, growth of legumes and other fodder crops for cattle, a milk road and local community development programmes.

In Chile, the SIVAC consumer co-operative owns manufacturing facilities for building materials which employ 1,200 workers. It has a chain of warehouses and sales rooms in 13 different zones of the country.

In Mexico, the Portland Cement producing cooperative "La Cruz Azul" (The Blue Cross) Co-operative Society Ltd. owns two large factories. One in "La Cruz Azul" city, 70 kilometers northeast of Mexico City, has its own

quarries where limestone is extracted and is then ground and processed in its own installations and the finished product delivered throughout the country. It comprises grinding and homogenizing sections, six furnaces, silos, packaging plants and other complementary installations, and its daily output is 2,700 tons. The other factory in Lagunas, OAXACA State, 700 kilometres southeast of Mexico City, produces 1,500 tons daily.

Associated with the "Cruz Azul" are the Juárez Cooperative Society which owns 19 trucks for the transportation of the limestone from the quarries to the factories and then for cargo shipments; and the Community Services Cooperative which performs all kinds of auxiliary services such as painting, gardening, light and gas installations, care of the sports grounds and supplying provisions to members of "Cruz Azul".

In India, some 76 co-operative sugar factories produce over 30 percent of the entire sugar production of the country (in 1969). The farmer-members number from about 2,000 in a small factory to 10,000 in a big one. One of these co-operatives, in Maharashtra, with a crushing capacity of sugar-cane of 5,000 tons per day, is the largest factory in the country. The establishment of co-operative sugar factories has had a significant impact in the rural areas. "The growers have developed a new confidence-hitherto unknown to an illiterate or semi-literate man of small means - in their ability to organize and run large capital intensive projects. As a result, the movement towards an all-round agroindustrial and socio-economic development of the areas around the co-operative sugar factories gathered momentum, with the co-operative factory providing the nucleus for this growth .... For instance (in Maharashtra) the establishment of one agro-industry, namely sugar, has enabled the farmer-members of the co-operative sugar factories to set up other agro-industries, such as oil processing, solvent extraction, cotton ginning, power-loom, distillery, poultry farms, etc. Further, the factory has also played a leading role in providing better educational and medical facilities not merely for its members, but for the entire area around it." <sup>1/</sup>

<sup>1/</sup> "Sugar Factories in India on a Cooperative Basis", (S. M. Acharya, in Review of International Cooperation, Vol. 52, No. 2, 1969).

VII. WHY ARE INDUSTRIAL CO-OPERATIVES MORE DEVELOPED  
IN SOME COUNTRIES THAN IN OTHERS?

A. Better training opportunities

The potential for co-operative industrial production in the developing countries depends in large measure on the quality of managerial and technical personnel. Development can proceed no faster than the pace permitted by availability of human skills for operating machinery, managing farms and factories, and administering the complicated political, social, scientific and productive apparatus of a modern economy.

It is a striking feature of those areas which have been singled out above as being in the forefront with respect to development of industrial co-operatives that they have made conspicuous efforts in the field of co-operative education and training. In most developing countries, however, inadequacies of managerial and technical know-how have been a major obstacle to industrialization. The problem stems partly from the fact of widespread illiteracy and lack of experience with modern market economies.

Co-operatives find it difficult to attract and to retain competent staff, to say nothing of able managers. There is no career structure and little future in the rural areas; the consequence is a serious "brain drain" to urban industry and to government. Primarily, however, the difficulty has been the sheer inadequacy of training, extension, advisory and educational facilities.

Literally all types of skill are in short supply in the developing countries - not only mechanical aptitudes but even the ability to read, write and count, to say nothing of entrepreneurial initiative, knowledge of accounting, clerical and trade skills and administrative and managerial competence. This scarcity of skills represents an even more difficult problem than mere lack of money and of teachers. It is not only finance which is required to produce skills, but also considerable time and patience as well as basic changes in attitudes.

In addition there are certain special difficulties confronting co-operative efforts to provide training for industrial skills. New techniques have to be evolved appropriate to the training of adults. In large measure these techniques have to be adapted to on-the-job training.

Specialized technical training appropriate to many different industrial commodities and processes has to be provided. Finally, because of the generally low educational standards in rural areas, it is necessary to develop and to reproduce on a mass scale simple teaching materials and audio-visual aids (primers, posters, flannel boards, flip charts, slides, films and projectors, radio scripts, etc.).

Basically two broad categories of training are involved, 1) member education and 2) technical training for management and staff.

1) Member Education

If co-operatives are to make a maximum contribution to the "industrial climate" of a developing country, it is vital that careful attention should be given to the educational needs of the membership at large. This is partly because it is from the membership that potential management, committeemen and skilled staff will be recruited. But it is also because the efficient operation of an industrial co-operative and the gradual development of a technological approach and mentality depend upon the literacy, alertness and interest of individual members and their understanding of their rights and duties as members.

In many developing countries one-day courses for co-operative members have proved to be an effective means of informing and teaching members of primary societies. Such courses can also be made available to wives and children of members, thus adding to the social attraction of such occasions as well as motivating women and young people. Annual meetings, too, have an important educational influence if they are carefully prepared so as to be meaningful and interesting even to illiterate members.

Another educational device which helps to identify and stimulate potential leaders and activists among co-operative members is the study circle or permanent discussion group set up at the primary society level for staff members, committeemen and interested members. Discussions centre on the economic and social conditions of the town or village as well as the operations of the co-operative society and improved efficiency and services to members. Through its Regional Offices in South East Asia and in East and Central Africa, the International Co-operative Alliance has experimented with linking such group discussions to correspondence courses on the one hand and to radio broadcasts on the other.



Potential co-operative members can also be influenced through school co-operatives <sup>which</sup> can be used at all levels of training to introduce students to simple practical activities on co-operatives lines. These can be found in primary and secondary schools and even at universities in a number of Asian, Latin American and African countries. They include exercises in thrift, the purchase of school books and equipment, and the operation of small money-raising projects such as canteens, poultry raising or school gardens. In this way young people learn how to manage a simple business while practising democracy and being trained in co-operative principles.

2) Technical Training for Co-operative Management and Staff

The most common method of diffusing co-operative training is via formal courses of instruction in local, regional or national co-operative training schools, institutes or colleges. Special co-operative courses are also sometimes offered in teacher training colleges and agricultural schools; or they may be provided by the co-operative departments of governments for junior officials, inspectors and auditors of the departments as well as for senior staff of co-operative unions and co-operative banks.

Co-operative staff training schemes are conducted partly through evening classes, day-release and correspondence courses, but also in residential co-operative colleges which accept students for periods from a few weeks to a complete academic year. The courses may be of a general character providing training for co-operative secretaries and managers and officials of co-operative departments, or they may be specialized according to the type of co-operative or the particular commodities handled.

In some cases there is a marked degree of specialization in the industrial training available to co-operative officials; for example, in India there are a large number of provincial training colleges and centres for intermediate co-operative personnel, a National Co-operative Training Institute which offers inter alia special orientation courses for officials of industrial co-operatives and a National Institute of Co-operative Management for specialized management and technical courses for senior co-operative officials.

One of the most constructive directions for co-operative education is to relate instruction directly to practical experience through on-the-job training. This can take various forms, for example:

- co-operative pilot or demonstration plants combined with training in simple management techniques such as bookkeeping, general technical training and the use of new raw materials;
- the establishment of management training cells in each co-operative processing and manufacturing unit;
- training designed around a single manufacturing, processing, marketing or administrative activity;
- recruitment of instructors from industry - both co-operative and privat-profit enterprises; and
- co-operative industrial estates designed to serve a large number of functions in connexion with industrialization: these are clusters of small co-operative enterprises on common industrial estates giving them access to various technical, management, advisory, research and training services.

Another type of on-the-job training is illustrated by the Professional Polytechnical school associated with the Mondragon complex described earlier. Courses are offered for three levels: professional workers, technicians and "masters", and engineers. Students at the two higher levels form themselves into co-operatives which actually engage in production for the co-operative enterprises belonging to the Mondragon complex. By working half time in these productive operations the students develop their skills while earning part of their expenses for training and room and board.

There are also a number of co-operative training schemes on the local village level for training unemployed youth. These include various youth service schemes in which young unemployed people live and work together for a period of two to three years, combining general and vocational training with practical development activities. Simple workshops and organized along co-operative lines, with the idea that on finishing the course, trainees can set up pre-co-operative productive associations. In some cases these training centres become servicing co-operatives for the societies thus created.

Another way of bringing co-operative training to widely dispersed communities in rural areas is the use of mobile educational units or teams of teachers travelling out from a permanent base. There are a number of variants of this system. One is the use of mobile instructors who move from

one locality to another and conduct training activities either in selected enterprises or in selected common facility centres. The instructor need not carry heavy tools and equipment, and the approach is mostly applicable in trades where manual skills need improvement or new methods of work can be promoted with types of equipment already in use; for example, better methods of welding, electroplating, heat-treatment of agricultural tools and implements, etc. In Argentina for example this type of mobile training has been useful in connexion with the repair and maintenance of agricultural equipment.

Mobile training can also be provided through mobile training vans. Here the training facilities, that is equipment, tools and materials, move from place to place along with the instructor(s) in a motorised van. Such an approach can be used in countries where good roads have been developed. It is most useful for types of work where use of new equipment has to be demonstrated, skill imparted in a short period of time, or the trade broken down into component sub-trades (such as gas welding, electric welding and arc welding) and can be imparted in successive stages.

A third type of mobile training is through demountable training centres established in a locality by installing equipment either in a pre-fabricated building which can be removed, or in a rented building. The centre is moved from locality to locality for pre-determined periods of time. This approach is useful for trades which require a longer time for skill development, where trainees can spare more time from their work for training, where the training needs are not of a recurring nature and where the equipment may be somewhat bulky.

Finally, a system of mobility can be introduced by converting a training centre in a particular area to a production centre on the completion of the training of the first group of trainees; the instructor along with purely training equipment such as audio-visual aids, classroom equipment, etc. are moved, but not the productive equipment nor the building. Such an approach is applicable to trades where self development training can take place after a short period of supervised training and where an integrated promotional effort is required to develop the industry.

The main thrust in training for industrial co-operation in developing countries has to be made by the co-operative movements themselves with

generous support from their governments. Nevertheless international assistance plays an important role in this connexion. The international co-operative movement through the ICA regional offices is active in experimenting with new techniques and in sponsoring a large number of courses and seminars for co-operators in these areas. The United Nations has also done important work of this kind, particularly through the ILO and FAO, and more recently through UNIDO which of course has a special interest in industrial co-operatives.

Although it is generally recognized that the most valuable training can be done within the developing countries, nevertheless opportunities to send promising officials from co-operative movements and/or from government co-operative departments to study in countries of advanced co-operative experience can be valuable and should be fully exploited. The number of co-operative institutions set up for this purpose is increasing; notable examples include international co-operative training centres in Sweden, the UK, USA, Canada, France, the Federal Republic of Germany, Japan and a number of East European countries, particularly Poland, Czechoslovakia and the USSR.

#### B. Better access to essential industrial services

Industrial co-operatives are designed, at least in their initial stages, to pool the resources of predominantly small-scale producers. Thus one of their major functions is to offer centralized services to meet essential needs which these small producers are not individually in a position to provide.

These servicing requirements are legion. They include, in addition to training, planning; research and advice on inputs, design, standards, productive techniques, appropriate machinery and equipment, finance and management; supervision; accounting; auditing; collection; bulk purchasing; grading; quality control; transport; joint processing facilities; joint show rooms; machinery pools; repair shops; sales promotion; stock control; credit control; and cost control.

In those parts of the underdeveloped world where industrial co-operatives have flourished, the availability of such centralized servicing has been well above average. In a few more advanced movements - for example in India, Argentina, Mexico, Bangladesh and Pakistan - the co-operators themselves have provided technical assistance of this kind through well developed networks of secondary unions or federations.

Secondary co-operatives and co-operative research institutes, because they have an immediate and practical outlet in the form of primary production co-operatives, are in a position to carry out and disseminate "operational research" in the sense of adapting technological innovations to the best use of available resources in the country. Thus they can be excellent channels for diffusion of appropriate technology and research results relating to product design, manufacture, analysis and testing of materials and products, development of raw materials, fuel and energy problems, location of plants, cost and productivity studies, market research, labour problems and evaluation of extension services. In many more instances, however, it has been the governments of the developing countries which have made such services available. In practically all developing countries many of these services are provided by co-operative departments of governments. However where industrial co-operatives have made unusual progress, there usually exist government institutions which extend more specialized technical assistance and advice. For example, in Chile such services are available from the Cooperative Development Department of the Service for Technical Cooperation, the Department of Industrial Promotion, the Cooperative Unit of the Supply and Machinery Department and the Chilean Institute for Promotion of Work, a private institution in receipt of federal subsidies. In the Arab Republic of Egypt a department in the Ministry of Local Government known as a "public organization of producers", co-operatives and small-scale industries" provides assistance to industrial co-operatives in the form of planning, supervision, technical guidance, training centres and financial help; in addition there is an Institute of Small-scale Industry, partly supported by the UN, from which co-operatives can obtain training, guidance and economic and technical research assistance. In India a wide variety of government institutions plan, organize and implement development programmes relating to industrial co-operatives; these include the Khadi and Village Industries Commission, the All-India Handicraft Board, the All-India Handloom Board and numerous technical institutes at the provincial level. In Tunisia and Morocco government bodies provide technical support to craft workers.

Finally it should be noted that international technical assistance to co-operative development is widely dispersed throughout the developing world, particularly in the form of expatriate experts, either as individuals or in teams.

A more systematic international approach to the servicing function is being experimented with by the ILO through its Cooperative Enterprise Development Centres (CEDCs), four of which are already in operation in the Cameroon, the Ivory Coast, Tunisia and Botswana.

The precise organization of the Centres is conceived as flexible for adaptation to the needs of the particular country concerned. They are designed to promote co-operatives of all types, primarily in rural areas. The stress is on concerted action over a sustained period of time in several sectors of co-operative activity including the promotional, supervisory, advisory and training services previously carried out by governments.

The general principles governing such Centres are:

- that they should be integrated into national and regional development programmes;
- that they are intended as technological institutes to promote practical activities and give technical, administrative, financial and accounting advice and training to co-operative staff and members, and to do basic research;
- that from their inception the Centres are to be semi-autonomous organizations legally and financially rather than integral parts of governments like the existing co-operative departments;
- that governments should provide counterpart assistance in the form of land, construction, buildings and personnel; and
- that eventually, after a period of four to five years, the services provided by the Centre should be taken over by a co-operative federation or national union.

The most recent international initiative for providing technical services to co-operatives in developing countries, and the one most specifically related to industrial co-operatives, is the new international Centre for the Promotion of Industrial Cooperatives. This was approved by the International Cooperative Alliance in September 1973, and it is intended that it should collaborate closely with UNIDO, ILO and, where appropriate, other UN agencies.

The Centre is located in Warsaw at the headquarters of the Central Union of Work Cooperatives of Poland which will be responsible for its day-to-day operations. Its purpose is to promote activities that stimulate the development of industrial co-operatives, giving priority to the needs of developing countries.

It is proposed to achieve this objective by:

- a. stimulating and facilitating various forms of technical assistance, including different forms of training, both in co-operative organization and in various technical fields;
- b. assisting in the promotion of trade by industrial co-operatives without itself engaging directly in trading activities;
- c. gathering information on the needs of developing countries with particular regard to industrial co-operatives;
- d. gathering information on the possibilities of co-operative movements and other organizations assisting industrial co-operatives in developing countries;
- e. working with all organizations in encouraging and formulating requests for assistance;
- f. facilitating bilateral contacts between donors and recipients of assistance;
- g. publishing a bulletin containing information on the activities of the Centre, requests for assistance and offers of assistance;
- h. collecting and disseminating information on all matters directly connected with the objectives of the Centre.

The Centre will be financed by the Central Union of Work Co-operatives of Poland together with voluntary contributions from members of the ICA Committee of Workers' Cooperative Productive and Artisanal Societies and from other interested bodies. The Centre may also charge for certain of its services.

#### C. Better access to finance

It is no accident that industrial co-operatives have made the greatest progress in those less developed countries in which financial support has been available, for example in India, the Arab Republic of Egypt, Chile and Argentina. Industrial co-operatives require more capital than other forms of co-operation: partly because of their greater need for expensive installations (for example, warehouses, heavy machinery, processing equipment, packaging machinery), and partly because of the longer-term investments involved and the consequent greater risks.

In most developing countries the financial problem confronting industrial co-operatives is formidable. Basically it stems from the poverty of rural communities and the low level of personal savings. There is also the heavy burden of indebtedness to private money lenders who are often in a monopoly position, and who are willing to lend, at exorbitant rates of interest, even for traditional, ceremonial and consumption expenditures. An additional factor is the scarcity of commercial credit institutions in rural areas, and the unwillingness of such institutions where they do exist to lend to small producers because of their difficulty in providing conventional collateral, the high costs of handling small loans and investigating credit ratings and the greater risk of default.

The two major sources of finance for industrial co-operatives in these areas have been members themselves and governments; there are also occasional co-operative investments by trade unions and an erratic flow of capital aid from international sources.

#### 1) Co-operative Credit

The most promising approach is for co-operators in the developing countries to continue building up a network of viable co-operative credit institutions - savings and credit societies, credit unions, local, regional and national co-operative banks - which can help finance rural and urban industrialization through co-operatives. At present there is too much of a tendency for co-operative banks to restrict their lending to agricultural co-operatives. Also more attention must be given to competent bank management - better training of staff, closer and more regular contacts with borrowers, avoiding corruption and use of loans for political purposes, and stress on promptness and flexibility in meeting requirements.

Credit should be closely linked with other forms of co-operation - purchasing, marketing, processing, multi-purpose - and management should ensure that loans are used for the intended purpose. Consideration could be given to the possibility of extending credit in kind, that is, in the form of required inputs with a lien on final output.

Similarly increasing attention will need to be given to "supervised" or "directed" credit which combines extension with technical advice, management assistance and supervision. Because co-operative credit must serve



a relatively large number of productive units with relatively small amounts of credit, there is a need for careful supervision, well trained staff, and assistance in developing training facilities for large numbers of credit personnel. This also implies decentralization of credit institutions.

Finally there is an emerging trend towards the setting up of specific co-operative credit institutions for financing industrial co-operatives. An interesting recent example was the setting up in a co-operative bank of an Indian state of a small cell concerned with creating agro-industries on a co-operative basis with finance from the co-operative bank. Similarly in Chile industrial co-operatives have benefited from technical and financial assistance provided by the Institute of Cooperative Financing IFICOOP LTD. It is a co-operative finance society that operates as a development bank; its members are from all branches of the national co-operative movement plus advisory institutions on co-operation.

The meeting of the Experts Group on Industrial Co-operatives which was held in Warsaw in 1971 under the auspices of UNIDO in co-operation with the Polish Union of Workers' Productive Co-operative recommended that local development funds should be set up on various levels and that co-operative banks should earmark funds for financing industrial co-operatives.

## 2) Government Financial Assistance

Bearing in mind the financial difficulties described above, it is not surprising that the single most important source of capital for industrial co-operatives in developing countries has been the governments concerned. This financial assistance has been provided either through relevant government departments or through specialized government financial institutions..

In India for example a network of government institutions provides finance for co-operatives at favourable rates of interest. There is a National Cooperative Development Corporation which is organized as a Standing Commission consisting of 20 key individual members connected with co-operative development; the Corporation plans and promotes programmes for production, processing, marketing, export and import of agricultural produce and specified commodities through co-operatives and provides financial aid through State governments who have to match the funds provided by the Corporation when sanctioning loans to co-operatives. There is also a Credit Guarantee Scheme for small-scale industries which industrial co-operatives can make use of; under this scheme

the Reserve Bank of India guarantees advances by credit institutions if they meet its approval. Similar institutions exist in Chile, the Arab Republic of Egypt, Japan and other countries.

The recent trend towards setting up specialized government financing institutions specifically for investment in industrial co-operatives is exemplified, again, by India. The government has instituted industrial co-operative banks in a number of States and has supported them by participating in their share capital and by sanctioning substantial loans for the construction of sheds, purchases of equipment, etc. In the Arab Republic of Egypt a special state fund has been established for financing industrial co-operatives through loans, subscriptions to share capital and letters of credit; and similar arrangements can be found in Japan.

### 3) Financial Assistance from Trade Unions

Another potentially important source of finance for industrial co-operatives relates to trade unions in developing countries. In Bombay, for example, the Building Mazdoor Union set up its own Cooperative Construction Society which functions as a construction contractor. In Nigeria, before the civil war, the Eastern Nigeria Development Corporation and Allied Workers' Union established a training centre for wives and daughters of trade union members to prepare them for the production of women's clothing, the centre started its own factory and sold its products to the Nigerian co-operative movement. In Tunisia the UGTE, the central trade union organization, has undertaken a variety of co-operative ventures including a large number of producer co-operatives. In Venezuela the Federation of Campesinos set up an organization called "Industrias Campesinas" (INDUCAM) which established a rice processing plant and its own agricultural mechanization service.

### 4) Financial Assistance from International Sources

Increasingly over recent years financial assistance has made its way through international channels to co-operatives in developing countries and industrial co-operatives are likely to benefit from this source even more in the future. Part of the flow has been bilateral from voluntary agencies (church groups, Oxfam, etc.) and from co-operatives and governments in industrialized countries. In certain cases aid institutions in these countries, particularly the Scandinavian countries, the United States, the United Kingdom and Canada, have channelled funds through their co-operative movements to co-operatives in developing countries. However the international flow from the World Bank and also from the regional Development Banks for Asia, Africa and Latin America is, potentially, even more important.

D. More support from their Governments

It is clear from what has already been said that government support has been the key factor accounting for the relatively rapid progress of industrial co-operatives in certain areas - government acceptance of the concept of co-operation as an instrument of development, and tangible government assistance to industrial co-operatives in the form of training facilities, technical and advisory services and financial resources.

In assessing the implications of this fact for the healthy development of industrial co-operatives in the developing countries, it is essential to bear in mind the circumstances under which these co-operatives are trying to operate. In most cases the setting is one in which no form of non-governmental enterprise, co-operative or otherwise, is in a position by itself, without extensive help, to break through the entrenched obstacles to industrialization.

There are many such obstacles. One is widespread apathy which makes for a tendency to rely on "the authorities" for initiative, money, enterprise, know-how, direction and planning. This apathy stems from poverty and frustration as a result of a long history of malnutrition, disease, illiteracy and restrictive racial, religious and traditional factors as well as economic dependence on monoculture in the face of falling and unstable world commodity prices.

Thus it is necessary for the State to undertake fundamental egalitarian reforms to provide the motivation and the climate which will generate industrial initiative. This implies basic land reforms and measures to free producers from the crushing burden of debts to landlords and money lenders. It also implies government provision of a basic infrastructure of roads, transport, communications, power, appropriate legislation, banking and marketing services and public educational facilities.

In short, industrial development cannot be expected to emerge spontaneously in stagnant economies paralyzed by poverty, illiteracy and extreme inequalities of wealth and income. Tremendous changes are required in attitudes and in institutions, and it is only governments that can engineer this kind of social and economic revolution. Industrialization will not progress in the absence of outright and extensive, even though

temporary, State support and tutelage. Economic development must necessarily be approached in political terms. And there will be no effective and lasting co-operative development in a country if the government does not will it and support it. This must be accepted. But a more important point is that there are many situations in which co-operatives are the most appropriate institutional channel for this essential governmental technical and financial assistance.

In the developing countries and especially those that have recently achieved independence, governments have been assuming more and more responsibilities in connexion with social and economic development and overall national planning. In these efforts they have necessarily had to make use of existing institutions - and in many countries co-operatives have been seen as one of the most important of these. Thus there has been an increasing amount of what is considered by some to be government "intervention" in co-operative affairs. This intervention takes many forms - government grants, loans and loan guarantees, governmental provision of co-operative ~~installations~~, tax and trading concessions, government orders for co-operative goods, training facilities for co-operators, co-operative legislation and governmental supervision and technical advice.

Much of this support adds to the strength of the co-operatives in the long run. Sometimes, however, governments have encouraged co-operatives to assume responsibilities beyond their capacities. In other cases the internal weaknesses of co-operatives have led governments to stiffen legislative requirements and State intervention to the point where many co-operators have felt that their initiative was being stifled and their autonomy threatened.

Thus there has been a good deal of discussion as to whether co-operative principles are being jeopardized in the process. It is true that a convincing case can be made for extensive government support and tutelage for emerging co-operatives in developing countries; for State money, State legislation, State extension workers and supervisors and administrative workers, for State economic concessions, for prior egalitarian reforms, and for integration of co-operative planning with overall State planning. But if all these forms of intervention are conceded, it can reasonably be asked where the distinction is between self-help and reliance on the State; between voluntary and compulsory activity; between planning from above and planning from below; and between State tutelage and monolithic State direction.

This is an issue that must be taken seriously and most observers would agree that there is a real danger that government control might become permanent and might undermine the essential characteristics of co-operation. At the same time it cannot be denied that in the developing countries there are situations which require substantial government support and intervention in co-operative affairs over fairly prolonged periods.

Part of the answer to this dilemma appears to be related to the setting of prescribed limits to State activity while acknowledging the temporary need for it. It must be made unmistakably clear both to State authorities and to co-operators that government intervention is temporary and only to the extent, and for as long as, required; that such intervention should be withdrawn as rapidly as possible; and that there should if possible be a time-table for such withdrawal.

This policy of "de-officialization" of "devolution of responsibility" usually takes the form of handing over to secondary co-operative organizations the various duties of promotion, audit, supervision, education, propagation and financial assistance as soon as they are ready to assume such responsibilities. A major difficulty, however, arises from the fact that effective and sound secondary co-operatives which can afford to provide such services are slow to develop in many developing countries.

Meanwhile there are a number of partial solutions available. A conference organized by the International Cooperative Alliance on this subject suggested that the following aspects should be taken into account in evolving a mutually constructive relationship between the movements and the State. Education and training of members should be organized even before co-operatives are established. Work entrusted to co-operatives by the governments must be proportionate to their capacities. There should be frequent consultations between government and co-operatives on matters of mutual interest. Government representatives on boards of co-operatives should be available as advisors and receive adequate training in the principles and practice of co-operation. Co-operative laws should be simple and comprehensive, and before enactment the views of the movement should be sought. The procedures for registration of co-operative societies should be simple and clear and no bye-laws should be imposed without due regard to the needs of the society. The task of supervision of newly-formed co-operative societies should rest with the co-operative federations. Education of members and office-bearers should be the responsibility of the movement itself.

### CONCLUSION

The evidence reveals that industrial co-operatives have made relatively rapid progress in countries which are among the more advanced of the developing countries: for example Argentina, Chile, India, Indonesia, Morocco, the Philippines, Tunisia and the Arab Republic of Egypt. In some of these, industrial co-operatives have evolved from small beginnings into very large-scale enterprises. Moreover it is a matter of record that industrial co-operatives are well established in two industrial countries which emerged fairly recently from the ranks of underdeveloped nations, namely Australia and Japan.

At the same time, however, industrial co-operatives seem to have established a firm foothold in other much less developed countries like Bangladesh, the Republic of Korea, Pakistan, and Sri Lanka. Even more striking is the fact that they are so widespread throughout the Third World. Information available to the ICA Secretariat in London shows that co-operative facilities for handicrafts, processing and light industries exist, to some extent at least, in 62 developing countries, and there are no doubt others for which the information does not happen to be on the ICA files.

There are good reasons for this ubiquity of industrial co-operatives in developing countries. One is that co-operatives have shown themselves to be effective instruments for making use of locally available resources - manpower, skills, raw materials and savings. An important factor at work here is the adaptability of the co-operative form of industry to various kind of rural production - farming, processing, construction, handicrafts and light manufacture. It is only through utilizing people and resources in agro-industry that substantial development can occur in the less developed countries.

Another factor is the built-in incentive inherent in the co-operative form of organization. Agricultural producers and handicraft workers who individually have no bargaining power in local markets dominated by a few landlords, merchants and moneylenders find that by pooling their efforts through co-operatives they can reap the advantages of scale. They start small, but by linking their collective productive activities with co-operatives provision of credit, supplies, marketing, training and advisory services, possibilities of unlimited expansion are opened up.

Increasingly governments and international aid organizations are finding that co-operatives provide a useful channel for directing the flow of technical and financial assistance to small producers who are scattered in villages throughout the Third World and who, because of their numbers, are the necessary agents of development. It has been recognized that the intended beneficiaries of aid can make good use of it only if organized in effective work groups - of which co-operatives are the most conspicuous example. More and more co-operatives are being looked upon as instruments for identifying and developing leadership; for training in respect of managerial and technical skills; for extension of supervised "productive" credits; and for transfer of appropriate technology.

Finally, the cumulative effect of co-operative action has a snow-balling effect which accelerates the process of industrial development. It isn't necessary for development officials or individuals interested in "better living" to wait for ideal conditions - i.e., adequate skills, funds and government support - before taking action. The initiative can be seized whenever and wherever there is a need capable of being met co-operatively, and the co-operative will itself help to create the prerequisites for further development. The opportunity may be for processing a locally produced commodity; for collective supply of inputs; for making credit available to local industries; for standardization, quality control and marketing of a handicraft item; or for manufacture of a piece of equipment in local demand. Whatever the initiative, the co-operative approach can contribute to the process by mobilizing and pooling local savings, by training on the job, by concentrating the bargaining power of individual producers (in buying or in selling), and by increasing productivity through centralized management and services. Through this pooling process small producers can grow into big enterprise and backward economies can become industrialized.

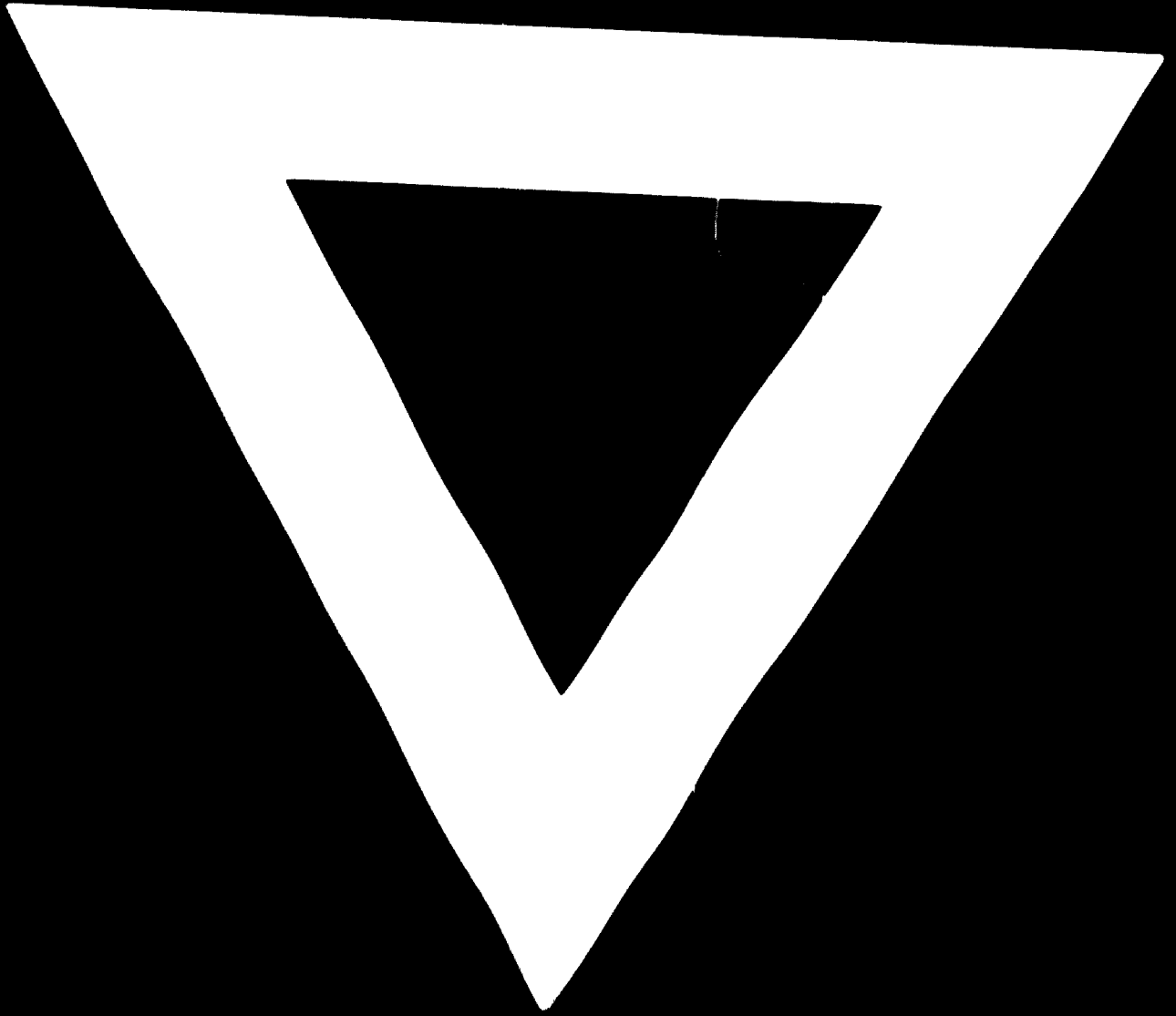
The major factors determining the successful operation of industrial co-operatives were identified in the foregoing pages as financial subsidies, training facilities for managerial and technical skills as well as member education, availability of centralized industrial services and strong government support. Each is essential in the long pull, but in most cases it will be necessary to make a small start on one front or the other in order to develop gradually in all these various directions.

Thus for example a co-operative project may be sparked off through an initial injection of external aid, i.e. financial subsidies and/or technical assistance. Inevitably however its progress will be severely restricted unless in the process of expanding it can win the good will and practical support of its government (grants, loans, training facilities, tax and trade concessions, appropriate legislation and technical advice); and at the same time begin to build up a structure of secondary co-operatives which can undertake on behalf of primary societies such centralized servicing functions as training and member education, supervision, accounting, extension, channeling of credits and joint supply, processing and marketing services.

Given the circumstances which characterize "underdevelopment", co-operatives are unlikely to be in a position for some decades to dispense with substantial government help and tutelage. However, so long as ~~these~~ two developments - strengthening of the co-operative infrastructure and strengthening of government support - take place in parallel and in harness, it will be possible to avert the threat to co-operative autonomy posed by undue government intervention. Eventually, in a much more advanced stage of development, it will be the self-help aspect of co-operative enterprise that will predominate - as it now does in the more industrialized countries.







**75.08.20**