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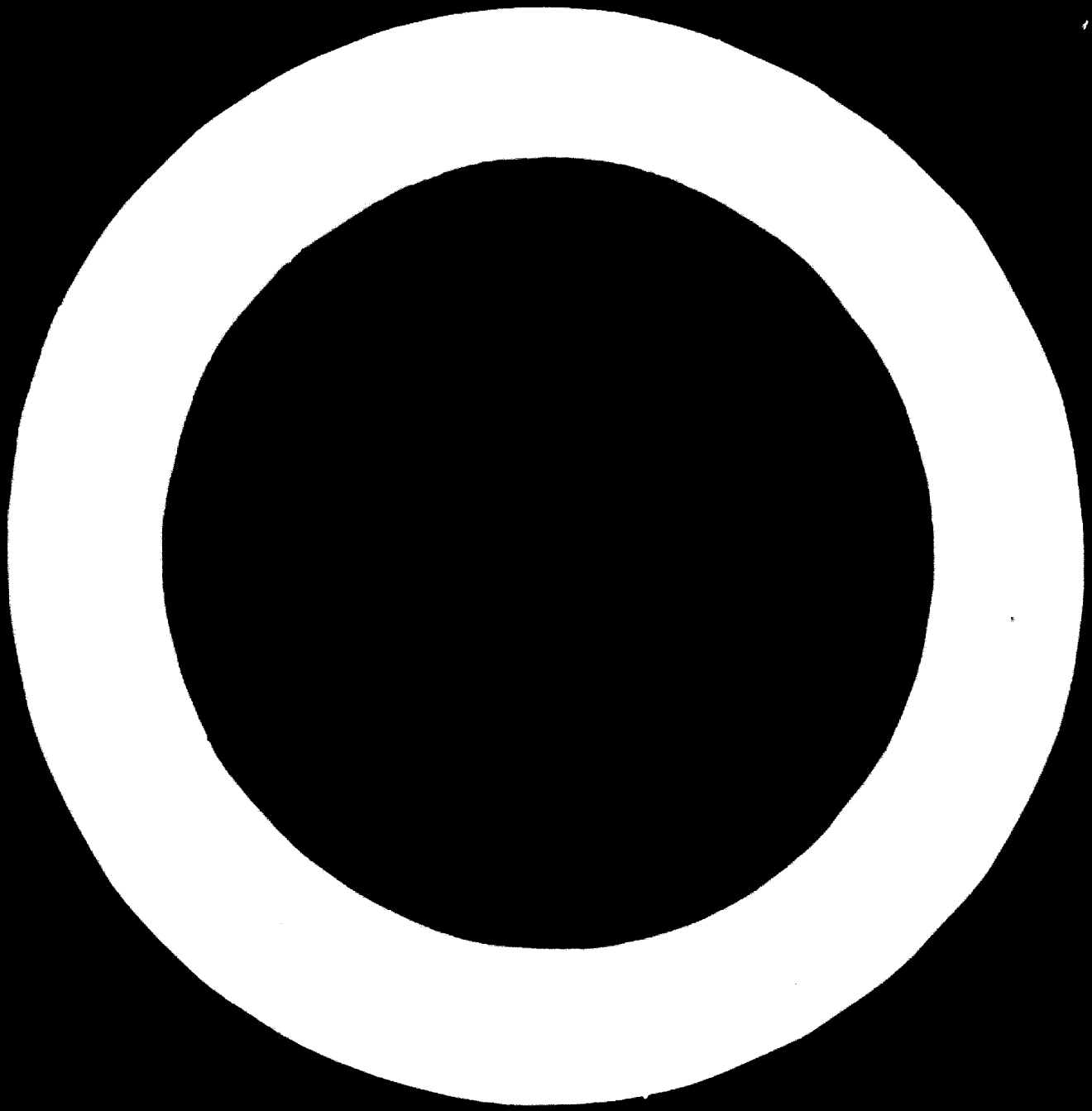
## Industrial Development Board

Fifth Session

Vienna, 24 - 28 May 1971

Agenda item 5

ROLE OF CO-OPERATIVES IN THE  
INDUSTRIAL DEVELOPMENT OF  
INDIVIDUAL COUNTRIES





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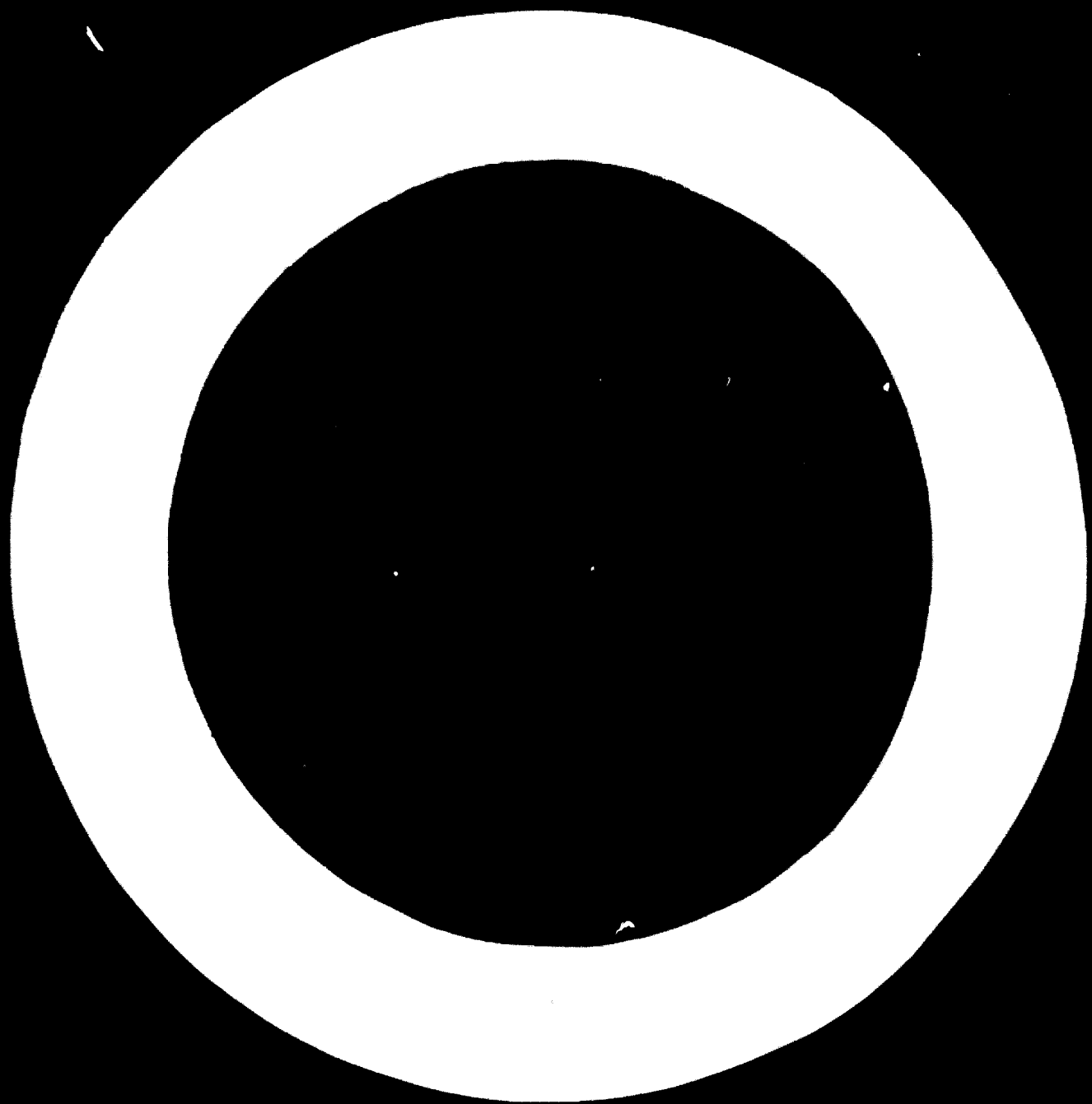
Corrigendum

Page 3, para.2, penultimate line

Insert: "Mexico" between Italy and Morocco

Page 4, centre heading

Change centre heading to read as follows: "Main requirements for the development of industrial co-operatives"



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## INTRODUCTION

1. At its third session, the Industrial Development Board adopted resolution 21 (III) in which it stressed "the importance for industrial development of mobilizing local human, natural and financial resources, which could be assisted by the co-operative movement, leading to the economic activation of less developed regions". The resolution requested the Executive Director to prepare, in consultation and collaboration with the International Labour Organisation and other specialized agencies concerned, "a concise report on the role of co-operatives in the industrial development of individual countries and on the knowledge and experience acquired in this field as it may be relevant to the situation in developing countries, taking into consideration the experience gathered by the International Co-operative Alliance".
2. It is in response to this resolution that the present report has been prepared in consultation with the International Labour Organisation, the Food and Agriculture Organization, and the International Co-operative Alliance. The report is based primarily on country case studies that were undertaken to ascertain the role of co-operatives in the industrial development of individual countries and to identify the problems that need to be tackled to make the co-operative form of organization an effective mechanism for industrial development. Due to the shortage of time and financial resources, these studies were limited to the following selected countries: Argentina, Austria, Chile, India, Indonesia, Israel, Italy, Morocco, Pakistan, Poland and the United Arab Republic.
3. To facilitate the comparison of the country case studies, the term "industrial co-operative" is interpreted to mean any industrial enterprise, large or small, which is legally registered as a co-operative, or is wholly controlled by an organization so registered. This is the definition that was adopted by the UNIDO Expert Group Meeting on Industrial Co-operatives held in 1967.<sup>1/</sup>

### THE ROLE OF CO-OPERATIVES IN INDUSTRIAL DEVELOPMENT

4. The country case studies prepared as a basis for this report contain ample evidence that co-operatives could make a contribution to the industrialization process in developing countries. Co-operatives can help to:

- Provide the opportunity to a larger segment of the population to invest in industrial projects and to contribute thereby to the financing of industrial development;
- Develop incentives for a fuller and more effective participation in industrial development;
- Spread industry over wider geographical areas, thus promoting balanced urban and rural industrial development;

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<sup>1/</sup> The documentation of this meeting was also used as background material for the present report, since the situation relating to the countries described in the documentation, with few exceptions, has not materially changed. See: "Nature and Role of Industrial Co-operatives in Industrial Development", Report of Ad-hoc Expert Group Meeting on Industrial Co-operatives, UNIDO, document ID/25.

- Provide common services to small-scale producers, thus enabling them to make use of larger-scale technologies;
- Make possible the utilization of traditional productive abilities of particular population groups.

5. The role of industrial co-operatives in industrial development appears to be subject to change, depending on the stage of industrialization. Industrial co-operative production in the countries surveyed varied from simple hand-made products to products produced with highly mechanized equipment, and from production undertaken by small artisan shops to production by large and medium-scale industrial enterprises. In all the countries under study, both urban and rural industrial co-operatives were in the process of development, although industrial co-operatives linked with agricultural raw materials appear to be more uniformly developed. In some of the countries surveyed, the contribution of industrial co-operatives to industrial development was minimal. It should be noted, however, that although industrial co-operation in developing countries is at present taking place mainly in rural areas and on a small scale, the structure and principles of co-operation do not preclude large-scale industrial operations. Thus, it is conceivable that in the future large-scale industrial co-operatives might be established in the developing countries. In fact, there are a few such co-operatives already in existence; for example, in the production of cement in Mexico and the production of fertilizers in India.

6. Industrial co-operatives in the countries surveyed are active primarily in the following industrial sectors:

- Construction and repair services, transport services and building services;
- Small and medium-scale industries for clothing, textiles, printing, furniture-making, shoes, metal commodities etc.;
- Processing of agricultural raw materials such as dairy products, fruit and vegetable products, flour milling, vegetable oils and cotton ginning;
- Cottage and handicraft production.

#### MAIN REQUIREMENTS FOR THE DEVELOPMENT OF INDUSTRIAL CO-OPERATIVES <sup>YES</sup>

##### Legislation

7. All the countries studied for this report have legislation dealing with co-operatives. The legislation, which provides for the incorporation and registration of co-operatives, lays down the way in which a co-operative should be controlled, managed and financed and the uses to which profit may be put. In some cases it also prescribes the degree of aid including fiscal incentives, which the Government may be prepared to provide. It should be noted, however, that in many countries this legislation is limited to, or deals mainly with, agricultural and consumers' co-operatives. Only in a few countries does legislation take into account the specific character of other types of co-operatives such as building and housing co-operatives and industrial workers' co-operatives.



8. The establishment of a legal framework specifically for industrial co-operatives appears to be a prerequisite for their development. The framework may be established either by adopting separate co-operative legislation for the purpose or by drafting general national legislation on co-operatives in a way that would render it possible to accept separate by-laws and rules that would meet the needs of industrial co-operatives and their functions. Moreover, in legislation concerned with industrial development in general, account might be taken of the role industrial co-operatives could play and of the possibility of providing the co-operatives with access to sources of financial and other aids which are available to other types of industrial enterprises.

#### **Favourable climate for industrial co-operatives**

9. In view of the many problems related to the establishment of industrial co-operative enterprises and, for that matter, to the establishment of any other type of industrial enterprise in developing countries, the authorities concerned might consider the creation of a favourable climate for their development. In some of the countries surveyed, a favourable climate has been established by one or more of the following measures:

- Provision of financial assistance;
- Tax concessions;
- Placing government orders for products with industrial co-operatives;
- Provision of government supplies;
- Assistance in organizing markets for co-operative products etc.

10. The number of developing countries that have adopted such measures however are few. In fact there appears to be only very few developing countries that have gone beyond the establishment of a legal framework for co-operative activities to elaborate plans and initiate their implementation for the development of the co-operative movement, including industrial co-operatives. Moreover, where such plans do exist they are often an outgrowth of a broader economic or industrial policy of the countries concerned. In Italy, for example, a broad programme of development of the agricultural processing industry is about to be implemented. It is based on the Government's participation in the financing of investments and on feasibility studies prepared by governmental agencies established for the purpose of regional economic development. The State ensures its interests by influencing the nomination of the managerial and controlling boards. In Austria, within the framework of the Green Plan, which is a part of the Government's economic policy towards agricultural production, financial assistance is being given for new investments in the agricultural processing industry. The assistance is given in the form of subsidies from state funds for the losses incurred from the level of certain prices (e.g., dairy products). Industrial co-operatives also stand to benefit from these sectoral development programmes. A much broader programme of promoting industrial co-operatives is in operation in the United Arab Republic where co-operatives of handicraft and small-scale industry are organized with financial assistance from the Government.

11. A general feature of all existing programmes of development of co-operatives, including industrial co-operatives, appears to be the provision of government financial assistance for co-operative investment as well as for production purposes. The State either grants credit on special terms, through the system of state banks (in some cases, through banks especially established for this purpose, e.g. India), co-operative banks or joint banking enterprises, or guarantees the credit given to the co-operatives by private or state banks (e.g. Italy). At the same time, the Government reimburses the losses of the banks involved derived from the difference between the privileged and normal rate of interest (e.g. Italy, India, United Arab Republic).

12. In addition there are a number of diverse forms of state assistance to industrial co-operatives. In the United Arab Republic, for example, the assistance consists of state established productive units which, after a certain period of work and after having reached an adequate organizational level, are transformed into industrial co-operatives. In Morocco, state assistance consists of paying the salary of a manager until the co-operative gains its financial independence.

#### **Effective organization and operation of industrial co-operatives**

13. The establishment of suitable legislation and the creation of favourable development conditions do not of themselves ensure an effective growth of industrial co-operatives in developing countries. One of the reasons for the relatively slow development of industrial co-operatives is that they are not being properly organized and operated. At times, the organization of industrial co-operatives suffers from unsound economic and technological conditions, which could have been avoided by well prepared feasibility studies. Moreover, once industrial co-operatives have been organized and registered, the authorities concerned apparently lack the enthusiasm to deal with the economic, technological and managerial problems involved in operating them. In some of the countries surveyed, a high percentage of organized and registered industrial co-operatives have suspended their economic activities or have not even started operations. There appears to be a need, therefore, for an institutional framework through which assistance can be provided to industrial co-operatives in solving their organizational and operational problems.

14. A number of institutions exist, or are being developed, which could provide assistance to industrial co-operatives. In some of the developing countries surveyed, steps have been taken to establish co-operative organizations of a second level, i.e. unions. Other developing countries either have, or are establishing, co-operative research or development centres. Most of these organizations, however, concentrate on propagating the concepts of co-operation or lack sufficient resources to provide assistance in the effective organization and operation of industrial co-operatives. It should be noted that many developing countries also have institutions such as industrial research institutes, industrial development corporations and management development centres which provide assistance to industrial enterprises in project formulation and implementation and in technological and management problems. Industrial co-operatives should be encouraged to make more effective use of these facilities. Finally, there appears to be considerable scope for collaboration of industrial co-operatives with private industrial enterprises through partnerships, subcontracts, management contracts etc. In many cases, industrial

co-operatives could benefit from this collaboration in areas such as managerial expertise, technical and business know-how, plant and equipment and capital resources.

## SPECIAL PROBLEMS OF INDUSTRIAL CO-OPERATIVES

### Qualified personnel

15. As has been indicated, apart from the necessary legislation and favourable attitude of state authorities to the co-operative form of industrial activities, there are other factors essential to the development of industrial co-operatives. One of the most important seems to be the availability of qualified personnel. All the studies prepared as background material for this report emphasize the fact that the lack of qualifications on the part of the leading staff (managers, technicians, economists, accountants etc.) and of personnel involved in the production process constitutes a major bottleneck in the development of industrial co-operative enterprises.

16. Co-operative organizations, particularly in developing countries, do not as a rule have their own system of training programmes. One of the exceptions among the countries surveyed is Poland which, within the framework of the workers' productive co-operatives, has a training system that provides programmes at various levels for the main branches of co-operative activity. In many countries, however, co-operative training is scarce and often deals only with co-operative ideology and principles and seldom with problems of technology, economy and management.

17. In spite of the fact that several international contacts between co-operative movements have been established either through the International Co-operative Alliance, through other international organizations concerned, or on a bilateral basis, there appears to be a lack of exchange of economic, technological and business know-how. Co-operative leaders and governmental agencies concerned with the development and operation of industrial co-operatives in developing countries could, perhaps, benefit from the experiences of other countries in these areas.

### Credit and finance

18. Although many of the countries surveyed have some sort of system of financial credit for industrial co-operatives, organized in the form of a special loan granted by co-operative banks, by special branches of state banks, or by banks controlled by the State, there are many indications that this system does not secure a broad and equal development of the co-operatives.

19. The banks involved do not always give credit to industrial co-operatives for two reasons: (a) not all co-operatives are able to give adequate securities; and (b) not all banks are able to contact co-operatives operating in remote rural regions.

20. The accumulation by a co-operative of its own funds for financing the development of various co-operative sectors, including industrial production, is rarely to be found, particularly in developing countries. Co-operative owned funds can be accumulated by increasing indivisible reserve funds in each co-operative or by collecting a part of available funds by a second level organization (i.e. union). Such centralized funds owned by co-operatives constitute a type of interior bank which makes it possible to carry out a credit policy beneficial

to the development of co-operatives in less profitable branches of industry and in less developed regions.

### Marketing

21. In most of the countries examined, industrial co-operatives are experiencing difficulties in the marketing of their products. Indeed, in some countries of Latin America, difficulties related to marketing constitute one of the main obstacles to the effective development of industrial co-operatives. Problems of industrial co-operatives in marketing are not limited to the domestic market but also appear in the organization of import and export activities. These problems seem to be due to a lack of production planning to suit particular markets, lack of standardization and quality control, lack of adequate packaging etc. A further basic and more wide-spread problem appears to be that industrial co-operatives, particularly in developing countries, produce goods for unorganized domestic and foreign markets. It would appear that this is the reason for the general trend towards the development of multi-purpose co-operatives in which industrial production, marketing and credit activities are closely linked.

### CONCLUSIONS

22. Industrial co-operatives in developing countries appear to have the potential to play a role in promoting and contributing to industrial development. However, there are many obstacles to be overcome before they can do so effectively. Primarily, these relate to a lack of:

- An adequate legal framework, applying specifically to industrial co-operatives;
- Provision for industrial co-operative development programmes as an essential part of the over-all planning for industrial development;
- Suitable facilities and arrangements for financing the establishment and operation of industrial co-operatives;
- Awareness on the part of key personnel in Government concerning the economic and social benefits to be gained by promoting the development of industrial co-operatives;
- Adequate training and research facilities and directly available management and engineering advisory services, which are essential for the effective organization and operation of industrial co-operatives;
- Knowledge on the part of the leaders of the co-operative movement and, in particular, of managers of industrial co-operatives on how to deal with engineering, technical and economic problems related to the organization and operation of industrial co-operatives;
- Second and third level co-operative organizations with sufficient resources to provide assistance to associated industrial co-operatives and to act as their intermediary with the Government and other organizations;

-Information on the development, organization and operation of industrial co-operatives in different countries.

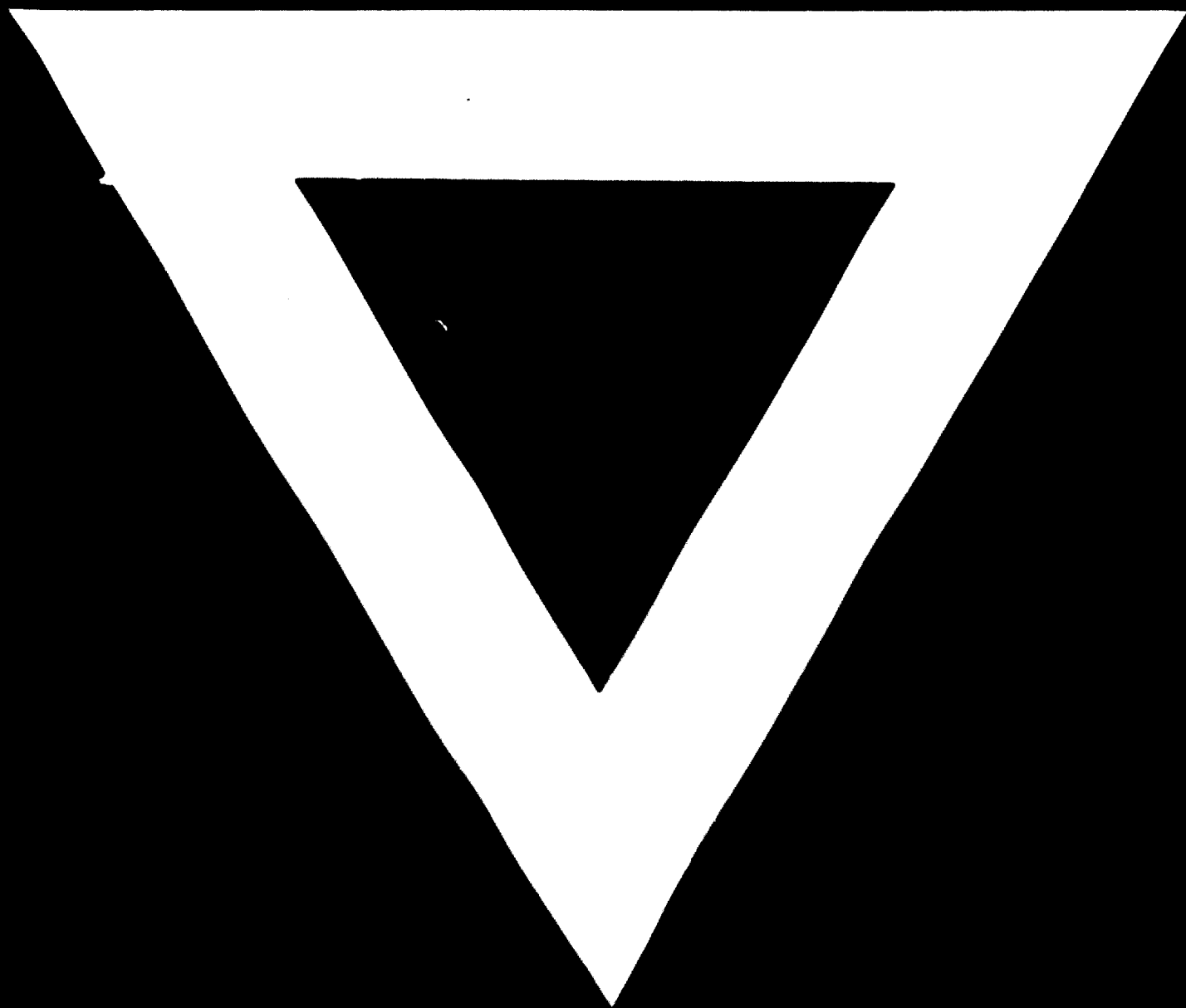
23. The necessity of an adequate legal framework for industrial co-operatives as a pre-condition for their development in developing countries has already been mentioned in this report. General legislation on co-operatives does not seem to be sufficient to cater to the needs and requirements for undertaking industrial production, at times under keen competitive conditions. There appears to be considerable scope for action in this area by Governments in developing countries.
24. The effective development of industrial co-operatives involves the establishment, on a co-operative basis, of enterprises that are technically and economically sound. The soundness of a prospective co-operative could be determined by feasibility studies undertaken before the industrial co-operative is established. The feasibility studies should include technological as well as socio-economic factors. A number of institutions, including industrial research institutes, industrial development corporations, private industrial consulting agencies, as well as co-operative unions, co-operative research institutes, and co-operative departments of Government, would be in a position to prepare feasibility studies if resources were available. International assistance, upon request of Governments, could also be of great importance in this field.
25. There is an apparent need for training, at all levels, of personnel involved in the development of industrial co-operatives. Of particular importance would be the development of training programmes for key persons in the relevant government ministries, as well as for managers and technical personnel of enterprises organized on a co-operative basis.
26. Training of key government officials could be organized by holding regional and inter-regional workshops of short duration. The workshops would aim at acquainting the participants with the contributions that co-operative industrial production could make to over-all industrial development, as well as with ways and means of promoting and assisting the development of industrial co-operatives. Training programmes of longer duration for managers and technical personnel of industrial co-operatives could be carried out by: conducting regional training workshops; establishing special training facilities in individual developing countries; or by organizing in-service and in-plant training programmes in countries where the industrial co-operative form of production is more developed.
27. The training programmes would deal with such subjects as project formulation and implementation, industrial management methods, industrial production technologies and marketing. There would appear to be scope for the provision, on request, of international assistance in organizing the training programmes.
28. With few exceptions, industrial co-operatives in developing countries face problems in such areas as management, marketing, financing and advisory services. Some of the problems call for initiative on the part of the Government and other local organizations concerned with the development of co-operatives; the solution of other problems might best be given through direct

assistance provided by international organizations. Much could also be done by attempting to secure a broader base of international assistance for industrial co-operatives by having them participate in international promotion programmes such as the UNIDO Industrial Promotion Service, organized at international industrial and trade fairs, and the UNIDO investment promotion meetings.

29. The establishment of second and third level co-operative organizations appears to be one of the prerequisites for the effective development of industrial co-operatives in developing countries. The role of second level organizations, i.e. unions, is twofold: to relieve the Government from exercising too much control by ensuring proper registration, adherence to co-operative legal statutes, etc.; and to provide wide-range direct assistance and services to associated industrial co-operatives. Governments in developing countries may thus wish to promote the development of co-operative unions by creating conditions favouring their establishment and by giving them financial support until they can be sustained by a sufficient number of associated co-operatives.

30. An important aspect for the development of co-operative production may be the establishment of close connexions between industrial co-operatives of different countries. International co-operation might play a role in pairing industrial co-operatives so that they could exchange assistance in such areas as industrial management, training, marketing and in technical know-how and equipment. Another aspect that may be worthwhile exploring with international assistance is the mutual economic and technical benefits to be derived through the establishment of partnerships, joint ventures and subcontracts between private industrial enterprises and industrial co-operatives. Such collaboration may lead, inter alia, to the establishment of large-scale industrial co-operatives in developing countries, the possibility of which has already been referred to in this report.

31. Finally, the development of industrial co-operatives and, consequently their future role in industrial development may be enhanced by an increase in the exchange of information on the development, organization and operation of industrial co-operatives in different countries. Such an exchange of information could be organized on a national and international level. Work in this area might usefully start by the preparation and circulation of: (a) a practical manual on the organization and operation of industrial co-operatives; and (b) case studies of successful experiences in solving specific problems related to the development, organization and operation of particular industrial co-operatives.



**22.7.74**