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United Nations Industrial Development Organization

New York, 6 - 15 November 1967

REPORT OF EXPERT GROUP ON

INDUSTRIAL CO-OPERATIVES

68-00261

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

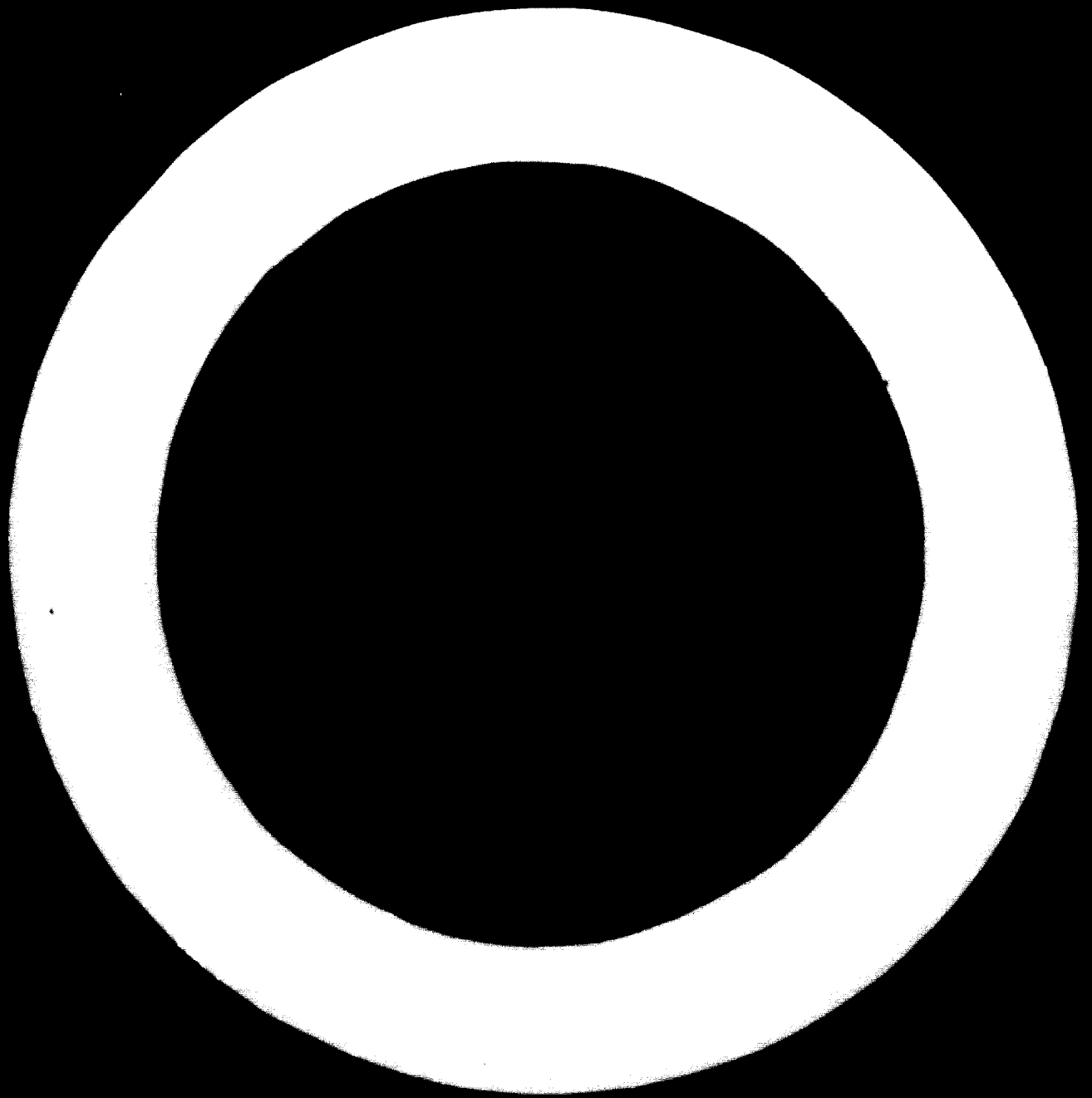
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INTRODUCTION

Recognizing that productivity and industrial production are basic means toward common welfare and development, the Group considers that co-operative industrial production is a factor of particular value, as it promotes:-

- (a) social progress and a better standard of life in larger freedom;
- (b) human solidarity, by introducing the fullest measure of community participation and of social responsibility in industrial production.



LETTER OF TRANSMITTAL
TO THE EXECUTIVE DIRECTOR OF UNIDO

We have the honour to submit herewith the report of the Group of Experts on Industrial Co-operatives. It was prepared during our meeting at United Nations Headquarters in New York from 6 to 15 November 1967. The Group elected, as its Chairman, Mr. J. E. O'Meara, Associate Director of the Farm Economics, Co-operatives and Statistics Branch of the Ontario Department of Agriculture and Food, Toronto, Canada. The other members of the Group were:

Miss Margaret Digby, Consultant, Plunkett Foundation for Co-operative Studies, London, England,

Mr. Florencio Graham, President, Asociacion de Cooperativas de Trabajo de la Republica Argentina, Buenos Aires, Argentine;

Mr. Luis Joo Chang, Instituto Nacional de Cooperativas e Instituto de Reforma y Promocion Agraria, Lima, Peru,

Mr. James Leonard, Secretary, Co-operative Production Federation Ltd., Leicester, England;

Mr. Julio C. Pandolfo, Union Economica del Uruguay, Montevideo, Uruguay,

Mrs. Chana Rozenman, Co-operative Section, Hebrew University, Jerusalem, Israel,

The Group appointed Miss Margaret Digby and Mr. Julio C. Pandolfo as Rapporteurs.

Mr. Johann Gudmundsson from the International Labour Office attended the meeting.

The Technical Secretariat was provided by Mr. Azmi A. Afifi and Mr. Hans Einhaus of the United Nations Industrial Development Organisation and by Mr. Johann Gudmundsson.

The terms of reference given by Mr. Azmi A. Afifi, the Assistant Director of the Industrial Services and Institutions Division, UNIDO, in his opening address were:

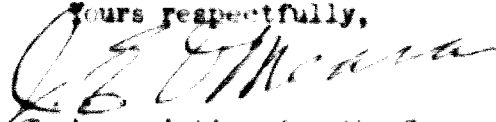
"To examine in depth the role of industrial co-operatives together with the part they play in the industrial development process and to formulate guidelines towards the implementation of an effective technical assistance programme for the strengthening of these institutions; and to reach conclusions and make recommendations for appropriate national action by advanced and developing countries and international action by the United Nations Industrial Development Organisation."

Our report follows these guidelines.

Document ID/W.G.7/1, "The Nature and Role of Industrial Co-operatives in Industrial Development", served as a background paper.

In submitting this report, we have acted in our personal capacity and not as official representatives of the organisations or governments to which we have the honour to belong.

Yours respectfully,


The Chairman Acting for the Group

New York, 15 November 1971

DEFINITION

In defining the subject under discussion, the Group adopted the formula on page one of the background paper*, which reads:

"For the purpose of this study, the term 'industrial co-operative' is interpreted in a broad sense to mean any industrial enterprise, great or small, which is legally registered as a co-operative or is wholly controlled by an organisation so registered".

The meeting agreed to use the expression 'Co-operative Industrial Production' as covering both co-operative enterprises formed by workers in an industry and industrial enterprises carried on by other co-operatives especially those of agriculturists, fishermen or consumers.

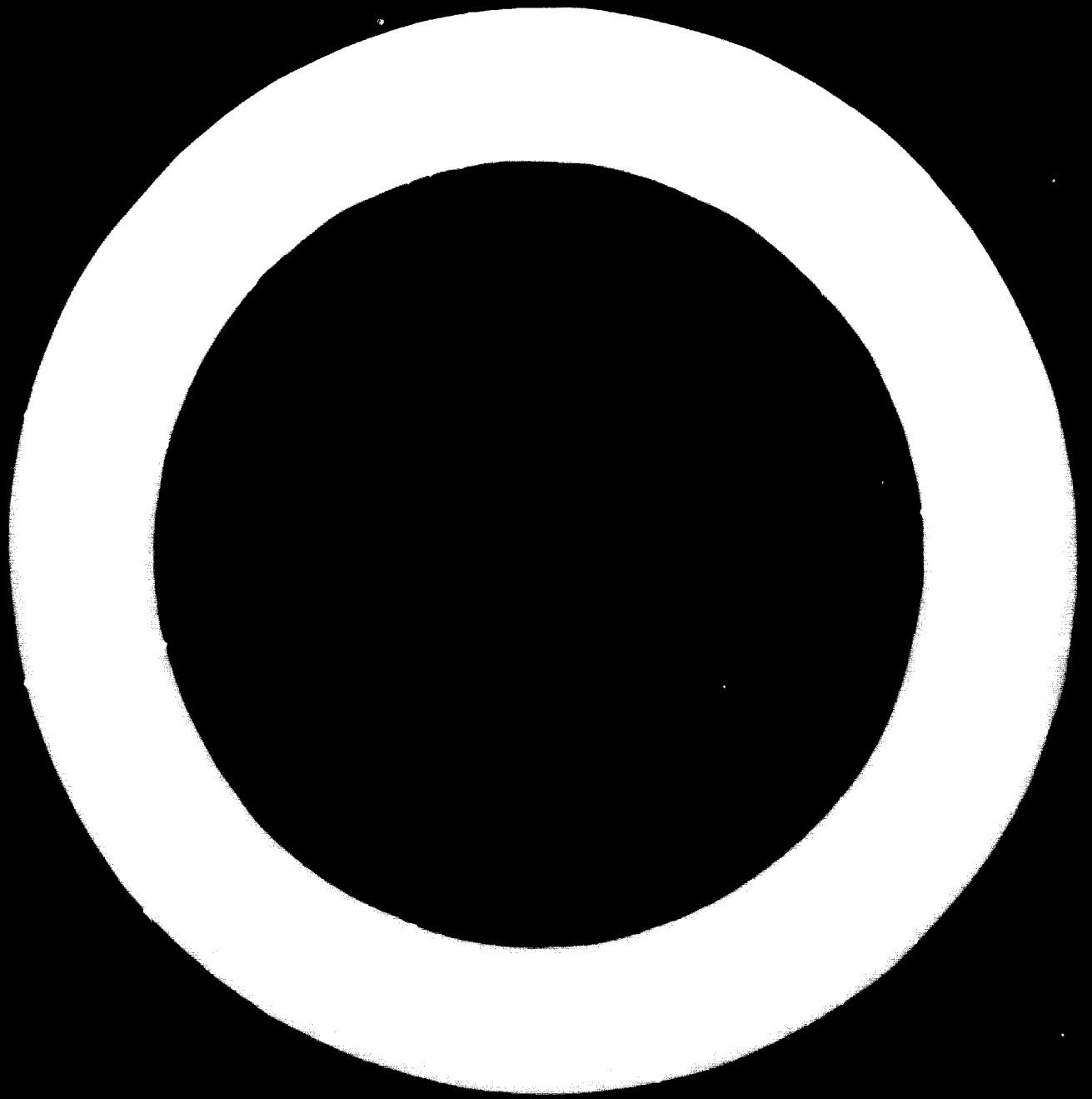
The definition of a co-operative is usually laid down in the legislation of each country and may be summarised as that of an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically controlled organisation, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which the members actively participate.

The member of a co-operative industrial enterprise may seek to improve their economic and social position by

- (1) supplying themselves with the goods and services required in their domestic or working lives;
- (2) organising their labour and pooling their capital resources
- (3) marketing their products;
- (4) providing personal or professional services

Accordingly, it was agreed that the Expert Group was not concerned with co-operative transport, insurance, housing, retail distribution, personal services or the extraction of raw materials in agriculture or fisheries.

*ID/W.G.7/1 (See letter of transmittal)



Chapter I

CONDITIONS FAVOURING CO-OPERATIVE INDUSTRIAL PRODUCTION

Co-operative industrial production may be undertaken spontaneously in response to economic and social conditions. The immediate object may be to provide employment or the opportunity for self-government and co-partnership in industry for the members; to exploit natural resources; to add to the value of agricultural raw materials by processing; to fulfill consumer needs and to lower the price of finished goods.

Development of co-operative industrial production may be an object of government policy associated with the need to develop locally owned industry. In a development programme some sectors of the economy may be assigned to it. The aims, objectives and policies of countries as a whole, influence co-operative industrial development, as well as the availability of financial support and technical aid.

The disadvantages of strong government sponsorship of co-operative industrial enterprises are that it might weaken co-operative initiative and sense of responsibility of members, and with them, the economic viability of enterprise and that it may arouse opposition in other sectors of industry.

In some countries co-operative industrial production receives strong support from Trade Unions, but this is not universal. Where it does occur, it often leads to rapid development and capitalisation. Partnership of industrial co-operatives with private firms exists in a few countries but is not a general practice.

Industrial productive co-operatives, of which the members are groups of workers, tend to concentrate on light industries, and those in which capital investment is on a moderate scale. They are also those in which the efficient working unit is relatively small. Larger and more heavily capitalised co-operative industries are usually owned by co-operatives of which the members are co-operatives of other types.

Chapter II

ADMINISTRATION AND MANAGEMENT OF INDUSTRIAL PRODUCTIVE CO-OPERATIVES

Legislation

With very few exceptions, all countries have passed co-operative laws which provide for the incorporation and registration of co-operatives and confer on them the powers usually accorded to corporate bodies engaged in industry and trade. The law also lays down the way in which a co-operative should be controlled, managed and financed, and the uses to which profit may be put. It prescribes the degree of supervision and aid including fiscal reliefs which the government is prepared to provide.

Much of this legislation is of a general character applying to co-operatives of all types. It might be considered whether legislation applying specifically to industrial productive co-operatives would serve a useful purpose.

It might also be enquired whether in legislation concerned with industrial development in general, sufficient account had been taken of the role which co-operatives might play and whether they have equal access with private undertakings to available sources of financial and other aid.

Administration

This term is taken to cover action by governmental agencies or private institutions on a national scale for the promotion and development of co-operatives.

In most countries with co-operative legislation, a department of government, either autonomous or forming part of a ministry, is charged with the supervision and is usually with the active encouragement of co-operative development. Sometimes, more than one department is concerned and co-operatives are divided according to whether their field of activity is industrial, agricultural, fisheries, etc.

The measure in which government departments are prepared to go beyond legal recognition and enter the field of co-operative promotion and aid, varies from one country to another. In general, developing countries attach importance to co-operatives as a mean of furthering national economic development and are prepared to aid them with loans on advantageous terms and to provide technical aid when required. This may be accompanied by a greater or less degree to supervision whether of the general conduct of the co-operative or of the conditions to which specific loans are applied.

Governmental aid of this character is recognised as essential to co-operative organisation in industry but it must be intelligently applied.

In many countries there are, in addition to government departments, national organisations (unions, federations, banks) set up by the co-operatives themselves. These may have considerable powers of administrative control, especially through audit. They may provide technical advisory services through professional experts in their employment. They may serve as a channel for loans to primary co-operatives by which the federations have been constituted.

They may also be themselves engaged in the purchasing of raw materials or the marketing of manufactured or processed goods.

Management

This covers a broad field of internal policy decisions, their implementation and control. They cover, among other things,

- (1) choice of materials and levels of technology;
- (2) scale of operations;
- (3) need for consultants and advisors together with the services available from existing research and development institutions;
- (4) location, whether near producers or raw materials or near markets, whether or not in industrial development areas;
- (5) hire or purchase of buildings;
- (6) internal organisation;
- (7) employment policies, whether of members or non-members;
- (8) wage policies;
- (9) efficiency standards;
- (10) operational training of personnel;
- (11) expulsions and dismissals;
- (12) costs of production;

- (13) cost of production;
- (14) overheads, maintenance and depreciation;
- (15) purchase of raw materials, whether from members or the market;
- (16) finance, including borrowed capital
- (17) marketing policy,
- (18) brand names;
- (19) economic and social services to members, family needs of members;
- (20) education and training of members.

Management at this level differs little from management in private enterprise but the nature of authority in all co-operative undertakings and the special relations between management and workers in industrial co-operatives of which the workers are share-holding members, call for special comment.

In worker-owned co-operatives, the supreme authority is the general meeting which is generally attended by the great majority of members. A committee of management is elected by the meeting which in turn appoints paid managerial staff. The degree to which the committee actually carries on management or is prepared to delegate authority to professional management varies from one co-operative to another. In some, an element of trusteeship might be included, when the representative of a financing agency, whether another co-operative or a government department, has a place, though not necessarily a vote, on the board.

In most industrial productive co-operatives, the management technical and office staffs are themselves required to become members of the co-operative, but this is not universal.

Workers' advisory committees, technical staff committees and meetings of members for information purposes may all contribute to the managerial structure.

In industrial enterprises owned by agricultural or consumers' co-operatives, ultimate control is in the hands of the annual general meeting of farmer or consumer members who elect a board of management which in turn appoints professional managers. In agricultural co-operatives, these are not members of the co-operative. They usually have a good deal of freedom to deal with current managerial decision, including the appointment of junior and manual staff. These people sometimes participate in the distribution of profit but their position in other respects is the same as that of workers in a private business.

Chapter III

FINANCE OF INDUSTRIAL CO-OPERATIVE PRODUCTION

Co-operatives are basically financed by the shares which their members invest. The minimum shareholding is usually low, in order to exclude no one on financial grounds and there is usually a legal maximum in order to avoid domination by a single investor.

Co-operatives in most countries are legally obliged to set part of their annual profits to reserves. They may also require or may persuade their members to accept their share in the profits in the form of additional share capital.

In addition to these firms of owned capital, co-operatives borrow from outside sources both for investment and working capital. These sources may include co-operative banks, insurance and pension funds; ordinary commercial banks; governmental banks, development funds and, in some cases, marketing boards. In some countries governments are empowered to guarantee loans made by commercial banks to industrial and other co-operatives. They may also subsidise the rates of interest in order to stimulate development through the provision of cheap capital.

In many countries, commercial banks are prepared to lend to co-operative enterprises but elsewhere they appear to lack confidence in the co-operative method. Government action aiming at stimulating the confidence of financial institutions in co-operatives would open up sources of capital in addition to those provided by co-operative banks and government funds.

Chapter IV

FEASIBILITY STUDIES

The borrowing powers of a co-operative depend largely upon the business soundness of the enterprise on which it has embarked. This should be determined by a feasibility study carried out before the co-operative is formed. Although formal provisions for such studies do not exist in all countries, there are in most, a number of agencies which would be in a position to make feasibility studies, on request, if adequate resources were available. They include national co-operative unions, co-operative and research institutes, co-operative departments of government, international agencies and private consultants.

The subjects covered in a feasibility study should include technological as well as socio-economic factors.

Feasibility studies of this kind give confidence in the soundness of the undertaking and might be used as the basis for an application for a national or international loan. They also form the essential groundwork for constructive planning.

Chapter V

CHOICE OF PRODUCTION PROGRAMME TECHNOLOGY AND SCALE OF OPERATIONS

Production Programmes

The choice of production programme often follows directly from the feasibility study as well as from the broader purpose for which co-operative organisation has been envisaged. This purpose may be the increase of employment and/or the use of local resources. It may be for the financial advantage of a group or to meet human needs by improving standards of living. It may be to meet the consumer needs of the immediate locality or to promote an export industry.

Not only the availability of labour must be studied, but the selection recruitment, training and housing of skilled supervisors. Premises must be designed or adapted. Their location may be subject to urban zoning and may be coupled with benefits if a particular site is selected, e.g. on an industrial estate. Attention must be devoted to the selection, installation and maintenance of machinery, the availability of raw materials and the conditions of transport. Finance must be considered and the problem of attracting capital investment must be faced. A marketing policy must be designed.

Co-operative industrial production had to overcome certain internal rigidities in programming to which private enterprise was less subject. Worker-owned co-operatives cannot easily dismiss worker-members when markets decline, but must seek to increase efficiency, lower prices and perhaps diversify production. This might be more difficult but it might also be of more value to the national economy.

Agricultural and fishery industrial co-operative enterprise on the other hand may find it difficult to refuse to handle the raw materials produced by their members even if it were of a quality, or delivered at a season not readily acceptable to the market. Here again, a solution has to be sought in efficient managements and marketing as well as in improvements in the methods and discipline of members providing the raw materials.

Choice of Technology

When selecting machinery for co-operative industrial enterprises in developing countries, due regard should be paid to the local capital formation and the necessity to maintain and, if possible, to increase the level of employment. New techniques should be used to

stimulate industry based on local raw materials and economise on imports. Industry should also be brought to rural areas but need not be based on local raw materials. The aim should be a balanced economy and overall social development.

Co-operative industries in developing countries entering on the world market might well need to use only the most modern equipment, even though enterprises need not necessarily be on a large scale.

Industrial co-operatives should not be expected to maintain obsolescent industries or techniques and there is a danger in the use of outmoded machinery for which no replacements can be obtained. "Intermediate technology" was generally looked on as a passing phase, unsuitable for production for the export market, though it might be used for the temporary needs of the home market. When, however, the demand was for the mass production of cheap consumer goods, only modern techniques would be effective.

Co-operative production must be competitive and for this purpose co-operatives must be prepared to adopt labour-saving equipment, provided that responsibility was accepted for finding alternative employment for displaced workers.

Scale of Co-operative Enterprise

This depends on the technical process involved, the number of workers to be employed or the volume of raw materials for which an outlet must be found. The most profitable use of capital is not the only deciding factor in co-operative planning. Scale often depends on whether an entirely new enterprise is being set up or whether existing co-operatives are combined to establish an auxiliary service. This is often a large undertaking with a ready-made market or source of supply and relatively easy access to capital.

In general, it was agreed that scale alone was not a decisive element of success or failure in co-operative industrial enterprises. The traditional systems of co-operative management with committee control and limited management authority might present certain obstacles to large scale undertakings calling for quick decisions. Attitudes were, however, changing -- agricultural and consumer owned co-operative enterprises were less affected and sometimes a solution to the manager problem may be found in co-partnerships and federal organisations.

Chapter VI

STANDARDS AND QUALITY CONTROL

Industrial co-operatives may be of great assistance to national bodies concerned with the establishment of standards covering both the quality of the finished product and the efficiency of the productive process. They can also help to maintain standards whether adopted by statute or by voluntary agreement.

Standards are essential for goods sold on the international market though more than one grade may be acceptable for the same product. Many countries, however, have not reached the point of demanding fixed standards for goods sold on the home market.

In many countries, co-operatives have set their own standards, especially in food manufacture and these have later formed the basis of nationally enforced standards. This has benefited both producer and consumer. Steps should be taken in all countries to arouse the interest of industrial productive co-operatives in the establishment and observance of standards and they should be encouraged to make use of production and research experts including those of firms supplying equipment. They should extend standardisation to the raw materials used.

Technical aid services, multi-lateral and bi-lateral, might be used in this connection.

It was noted that the higher grade of labour usually working in industrial co-operatives and the interest which they take in the success of their organisation should make the maintenance of standards comparatively easy.

Chapter VII

MARKETING

Marketing undertaken by co-operative productive industries may be taken to include the following functions:-

1. Determining the potential market, including consumer demand and seasonal buying - this involved research;
2. Merchandising, including plans to place the product on the market at the right time, place and price;
3. Advertising;
4. Distribution, and the channels through which the product passed from producer to consumer;
5. Selling methods at the point of sale;
6. Transport;
7. Storage;
8. Market finance.

In some countries, workers industrial co-operatives have for many years enjoyed a sheltered market selling either to consumers' co-operatives which are in sympathy with their aims and have taken shares in the enterprise, or entering into contracts with government departments which have been prepared to look with favour on their tenders.

These sheltered markets (which have very rarely been enjoyed by agricultural co-operative industries) are now tending to come to an end. Industrial co-operatives are facing the challenge of selling in the open market. This calls for additional capital and selling methods not contemplated by co-operatives in the past. Managerial machinery will have to be provided to cover the 8 functions set out above. It may well be that the co-operatives will in fact be strengthened by the need to adopt a more competitive attitude.

Market research and market intelligence is already available in many countries and co-operatives should be encouraged to use it to the full and, where necessary, supplement it with research of their own.

In many countries, the marketing of co-operative industrial and other products is assisted by the formation of regional and national federations which are in a better position to promote sales

in the home and export markets. They may also be in a better position than the primary co-operatives to secure marketing credits. Some of them are wholesale suppliers of raw materials to their member co-operatives, but in some industries the choice of raw materials is so essential to the individual character of the product that mass supply is inadvisable. Some federations undertake finishing or the assembling of parts produced by primary co-operatives.

Such federations are particularly effective when they group a large number of co-operatives making the same or a closely similar product. General marketing federations handling a variety of products may be of value but are more difficult to run efficiently. Co-operative importation of machinery on behalf of a range of co-operative industries, might however, be centralised in a single federation.

As regards merchandising and advertisement, the co-operative movement has been traditionally suspicious of this approach and many still prefer to sell goods in quality alone. This attitude is, however, becoming less important and sales of finished articles by normal commercial methods may be anticipated in the future. Research and advisory services as well as the readiness to employ experts will be essential if new methods are to be adopted with success.

Chapter VIII

TRAINING, EXTENSION AND ADVISORY SERVICES
FOR INDUSTRIAL CO-OPERATIVES

The link between technical training common to the industry which is usually available from publicly or privately controlled technical schools and colleges, and co-operative training which tends to emphasize social aspects, but may have an important bearing on methods of management. There is still room for specifically co-operative training which is provided by co-operative colleges and in some countries by Universities, and is linked with co-operative promotion.

Co-operative industrial enterprises should also take full advantage of technical training facilities available not only in production but also in marketing in specialised design and in the techniques of management.

Anything which tends to raise the professional status of co-operative management is a valuable aid to the recruitment of the right type of trained staff, since the present tendency of young men in most developing countries is to follow academic rather than technical studies. The common training of future co-operative managers and other leaders is also valuable as it tends to build co-operative esprit de corps.

Co-operative training has long been provided on an international basis especially by the International Labour Office, the Food and Agricultural Organisation and a number of co-operative and other organisations.

The link between training, research and advisory or consultancy services is recognised. National co-operative institutions should act as channels of information on new techniques to their member organisations and should be in touch with other institutions specialising in different fields of technical expertise. These institutions, whether governmental or private, should be recommended to find ways of communicating their findings to co-operatives who could benefit from them.

CHAPTER IX

CONCLUSIONS AND RECOMMENDATIONS

The Group of Experts agreed on a definition of co-operative industrial production which the Group believes will assist in bringing to the notice of those engaged in programmes of industrialisation in developing countries, a type of industrial enterprise which may be of considerable use in putting such programmes into effect.

The Group reviewed the organisational forms taken by co-operatives engaged in industrial production and noted that these may be controlled by the workers employed in them or by agricultural, fisheries or consumers' co-operatives on behalf of members who supply the raw materials or consume the products. The Group believes that all these forms of organisation do contribute to both social and industrial development and should be encouraged.

The Group, however, calls a special attention to the social values promoted by the worker-owned industrial co-operative.

The Group reviewed the conditions favouring industrial co-operative enterprises and have found them associated with the demand for employment or for a measure of self-government in industry; with the need to find an outlet for natural and agricultural resources or to supply local needs. Their development should be assisted by a favourable attitude on the part of governments and public opinion.

The Group considered the need for legislation favouring the development of industrial co-operatives and for their inclusion in national programmes of industrial development, including their access to any financial and other assistance offered for this purpose.

The Group stressed the value of non-governmental bodies such as co-operative federations or associations which are in a position to help in co-operative promotion and development.

The Group took note of the systems of internal management in co-operative industries and the degree to which they are adapted to the conduct of a modern and progressive enterprise.

The Group surveyed the financial structure of industrial co-operatives and noted that they are sometimes less well-placed than private undertakings to draw upon the normal sources of investment and working capital. The Group recommends that this situation should be studied and the attention of governments and international financial institutions be directed to the opening up of financial facilities to industrial co-operatives.

The contribution which governments might make to the promotion of industrial development through co-operative enterprises had already been touched upon at many points during the meeting of experts. In the concluding discussions, a series of proposals related to government assistance to co-operatives were agreed upon as follows:-

- (1) that governments, or the accredited financial or trade development agencies of governments, should be urged to consider the employment of systems of co-operative industrial production;
- (2) that systems of industrial development, which make use of the industrial co-operative system, and which thereby give promise of social and economic advantages to the workers, in addition to financial advantages to the region or nation, should be approved for feasibility studies;
- (3) that grants should be made from public funds for the costs of conducting feasibility studies in connection with approved schemes of co-operative industrial development;
- (4) that if a professional feasibility study on any scheme promises advantage to the state, social and educational advantages by inculcating and encouraging good citizenship through joint work, then such aid should be given as may be recommended in the professional consultants' report;
- (5) that the aid given should include technical and financial assistance, if required, and that in this case a competent representative of the government, (or of other agencies providing such aid) might be present in the Executive of the Co-operative Organisation carrying out the proposed industrial development.
- (6) that guidelines for the judgement of schemes should be formulated in advance by a government in accordance with the special needs of the particular country or region and such guidelines made generally known by public information;
- (7) that a co-operative system should particularly specify the equality of rights, opportunities and rewards available to worker-members of the co-operative in proportion to effort, ability and service, but this should not be taken to exclude assistance to industries controlled by agricultural or consumers co-operatives.

It was noted that financial support depends on the acknowledged soundness of the scheme to be financed and it was recommended that particular attention be paid to the possibility of carrying out feasibility studies before the recognition of new co-operatives or the launching of new enterprises by existing co-operatives.

The choice of production programmes, technology and scale of operations was discussed. It was considered that production programmes depend on local circumstance and resources and cannot be subject of a general statement. On technology, although the advantages of an intermediate technology were put forward, the general view is that industrial co-operatives could only face the competitive market by adopting the most efficient techniques. Scale would, in fact, be dictated by local conditions, technical methods and managerial capacity.

It was agreed that in developing countries, industrial co-operatives could be pace-setters in the determination and adoption of standards, and quality controls.

The Group was of the opinion that industrial productive co-operative should undertake the marketing of their own products but where the market was more than a local one, they should establish regional or national federations for this purpose. Such federations or associations, might also, in some cases, undertake the purchase of raw materials and/or the importation of machinery.

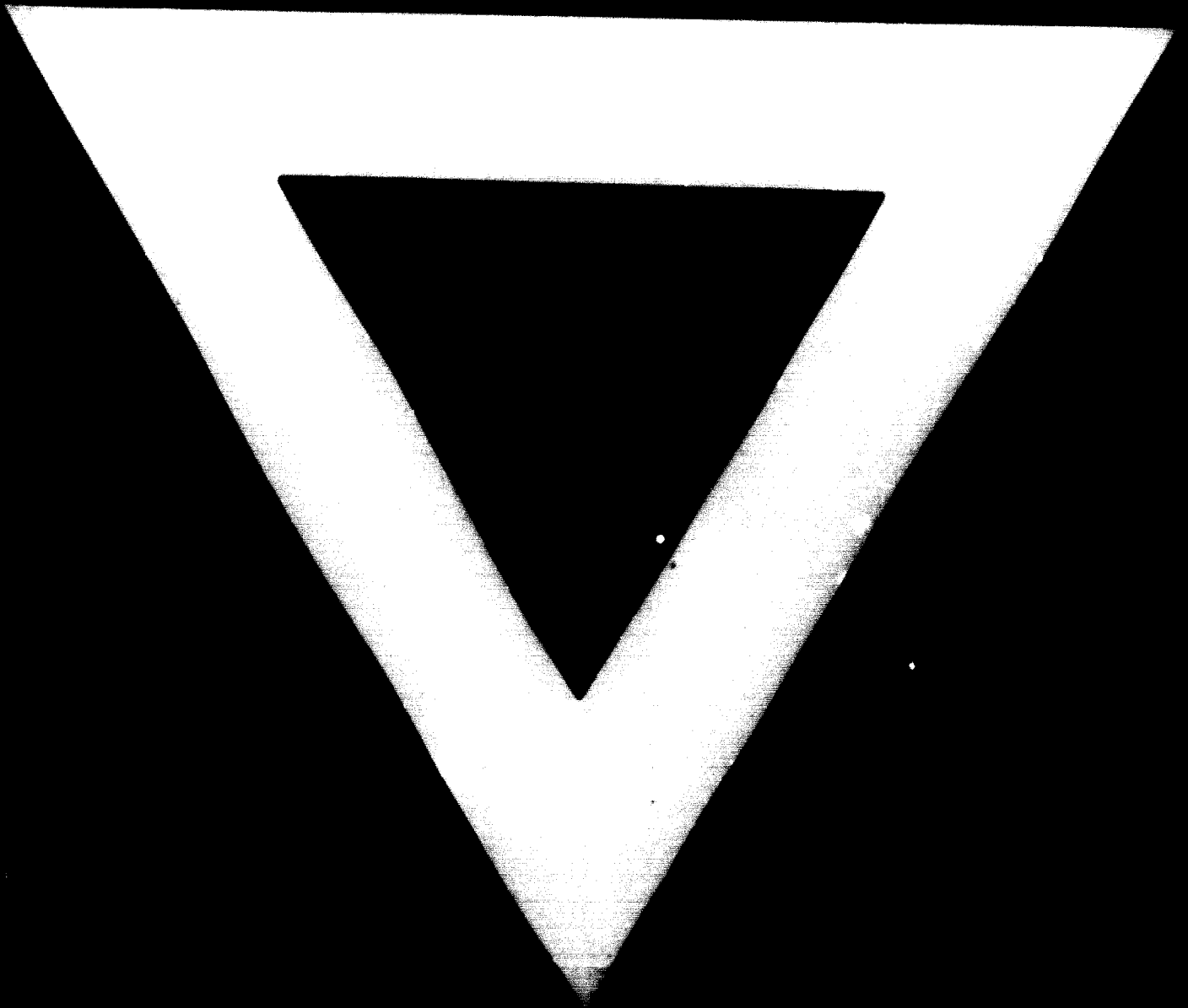
The Group reviewed the facilities for training, research and extension open to industrial co-operatives and noted the close connection between these functions. It is recommended that industrial co-operatives should take the fullest advantage of all existing facilities. It is further recommended that an investigation be made as to the types of training, research and extension facilities now provided and likely to be required for industrial co-operatives in developed and in developing countries. The findings of such an investigation might form the basis for future action.

The Group recommends:

- (1) that a programme should be drawn up for the promotion of co-operative industrial production as an essential part of the industrialisation of developing countries;
- (2) that technical assistance both multilateral and bilateral should be offered to this end to the governments of developing countries and through them to co-operative industrial production;

- (3) that use should be made of UNIDO's Industrial Promotion Service to locate sources of financial aid with a view to obtain multi-lateral and bi-lateral capital for industrial co-operative production;
- (4) that co-operative training, research and extension services should be provided and industrial co-operatives encouraged to make use of them;
- (5) that regional and inter-regional meetings on co-operative industrial production be held.
- (6) that a manual on industrial co-operative production be published.





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